

October 26, 2017

The 2nd Quarter of FY2017 (Ended September 30, 2017) Financial Results Briefing

 **Hitachi Transport System, Ltd.**



I. 1H of FY2017 Financial Results

[Summary of Financial Results]

Overview, Breakdown by Group, 1H of FY2017 Detail of Variations for Revenues/Operating Income, Overseas Results by Region, Reasons for Deviation from the Plan, Trend of New Orders/New Startups

II. FY2017 Plan

[FY2017 Plan]

Overview, Sales Strategy, Overseas Business, Automobile Business, Heavy Machinery and Plant Logistics, Collaborative Innovation Project with SG Holdings, Smart Logistics

III. Supplementary Material

Financial Position, Cash Flows, Major Financial Indicator/Operating Expenses, etc.



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

	FY2016		FY2017				
	1H		1H			Full-year	
	Results	Results	Y o Y	vs Initial plan	Plan (Revised on Oct. 26)	Y o Y	
Revenues	324.7	343.7	106%	104%	690.0	104%	
Operating income	<4.5> 14.50	<4.1> 14.05	97%	105%	<4.3> 29.50	100%	
EBIT (Earnings before interest and taxes)	<4.6> 14.90	<4.6> 15.69	105%	109%	<4.7> 32.10	102%	
Net income attributable to stockholders of the parent company	<2.7> 8.86	<2.7> 9.33	105%	106%	<2.9> 20.00	107%	

* Operating income in this document represents "Adjusted operating income."



1H of FY2017 Results (Breakdown by Group)

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

		Revenues			Operating income		
		1H	Y o Y	1H	Y o Y		
Organic	Domestic logistics	<58>	1,716	101%	91.2	93%	
	Global logistics	Overseas	<30>	880	117%	24.8	107%
		Forwarding and others	<9>	257	109%	3.9	160%
		Total	<38>	1,137	115%	28.7	112%
	Others (logistics-related businesses, etc.)	<4>	108	100%	8.2	89%	
	Total	<100>	2,961	106%	128.1	96%	
Vantec Group	Domestic logistics	<66>	352	101%	14.8	115%	
	Global logistics	Overseas	<34>	183	117%	2.9	63%
		Forwarding and others	<0>	1	82%	0.0	-
		Total	<34>	184	116%	2.9	63%
	Total	<100>	535	106%	17.6	102%	
Consolidated Adjustment/Amortization of customer-related intangible assets of VANTEC Group, etc.		-	-60	(-11)	-5.3	(-0.1)	
Total	Domestic logistics	<60>	2,054	101%	101.7	95%	
	Global logistics	Overseas	<30>	1,034	116%	26.7	99%
		Forwarding and others	<7>	243	108%	3.9	160%
		Total	<37>	1,277	115%	30.6	104%
	Others (logistics-related businesses, etc.)	<3>	105	100%	8.2	89%	
	Total	<100>	3,437	106%	140.5	97%	

Including upfront investment (-800 million)



1H of FY2017 Results (Detail of Variations for Revenues)

1H of FY2017 Revenues(Result)

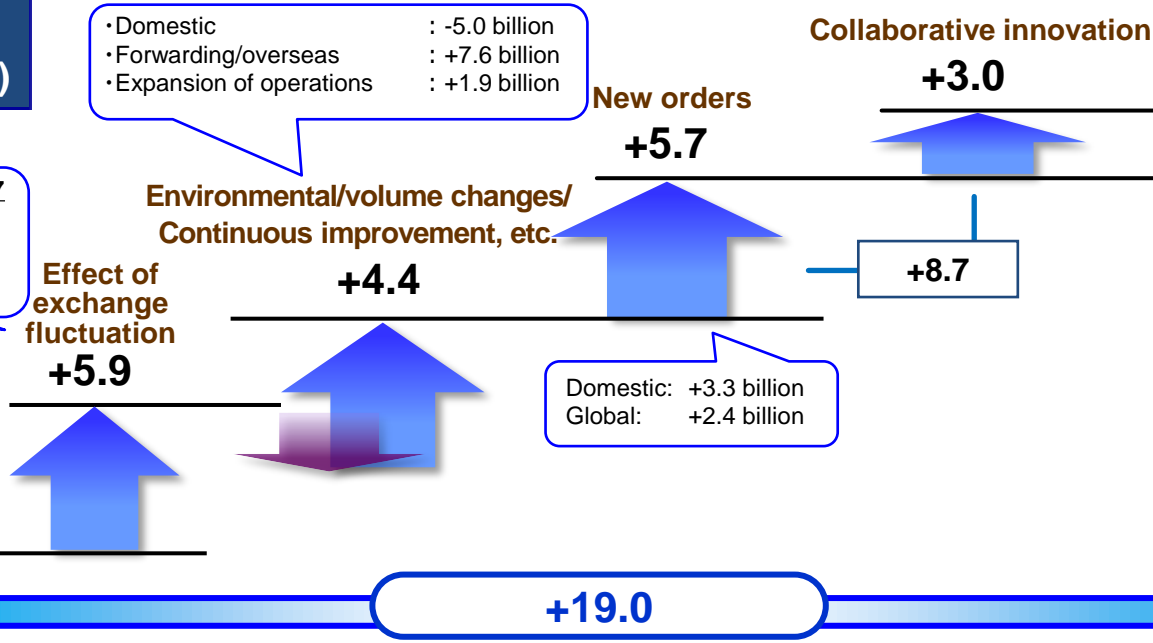
(Billions of yen)

1H of FY2016 → 1H of FY2017

- USD: ¥ 105 → ¥111
- EUR: ¥ 118 → ¥126
- CNY: ¥ 15.9 → ¥16.4

- Domestic : -5.0 billion
- Forwarding/overseas : +7.6 billion
- Expansion of operations : +1.9 billion

324.7



343.7

	Effect of exchange fluctuation	Repetitive promoting items/environmental/volume changes			New orders	Collaborative Innovation projects	Total
		Other volume changes, etc.	Expansion of operations	Subtotal			
Domestic		-5.0	1.6	-3.4	3.3	2.7	2.6
Global	5.9	7.6	0.3	7.9	2.4	0.3	16.5
Other		-0.0		-0.0			-0.0
Total	5.9	2.5	1.9	4.4	5.7	3.0	19.0

1H of FY2016 (Result)

1H of FY2017 (Result)



1H of FY2017 Results (Detail of Variations for Operating Income)

1H of FY2017 Operating income (Result)

(Billions of yen)

- New structural reforms, etc. : +0.74 billion
- Productivity improvement of unprofitable business : -0.04 billion

- [Initial Plan]-2.10 billion (full-year)
- Next generation/advanced technologies: -1.00 billion
- Working method transformation (ICT/Environment): -1.10 billion
- (included) Headquarters: -0.50 billion

15.69

14.50

Operating income

Effect of exchange fluctuation +0.25

Environmental/volume changes/Continuous improvement, etc. -1.32

New orders +0.44

New structural reforms/Productivity improvement +0.70

Collaborative innovation +0.28

Strategic investments -0.80

14.05

Operating income

EBIT

- Expansion of operations: +0.22 billion
- Fuel cost increase: -0.04 billion
- Other factors: -1.50 billion

* Other factors include:

- Benefit from measures in FY2016 (including Recovery from backlash of strategic investment): +0.35 billion
- Work costs increase (temporary/part-time employees) : -0.53 billion
- Withdrawal, etc.: -0.30 billion

- Domestic: +0.45 billion
- Global: -0.01 billion

- [Domestic segment]
- IT-related
- Working method transformation (Head office relocation: -0.40 billion)

Share of profits of investments accounted for using the equity method, etc.

-0.45

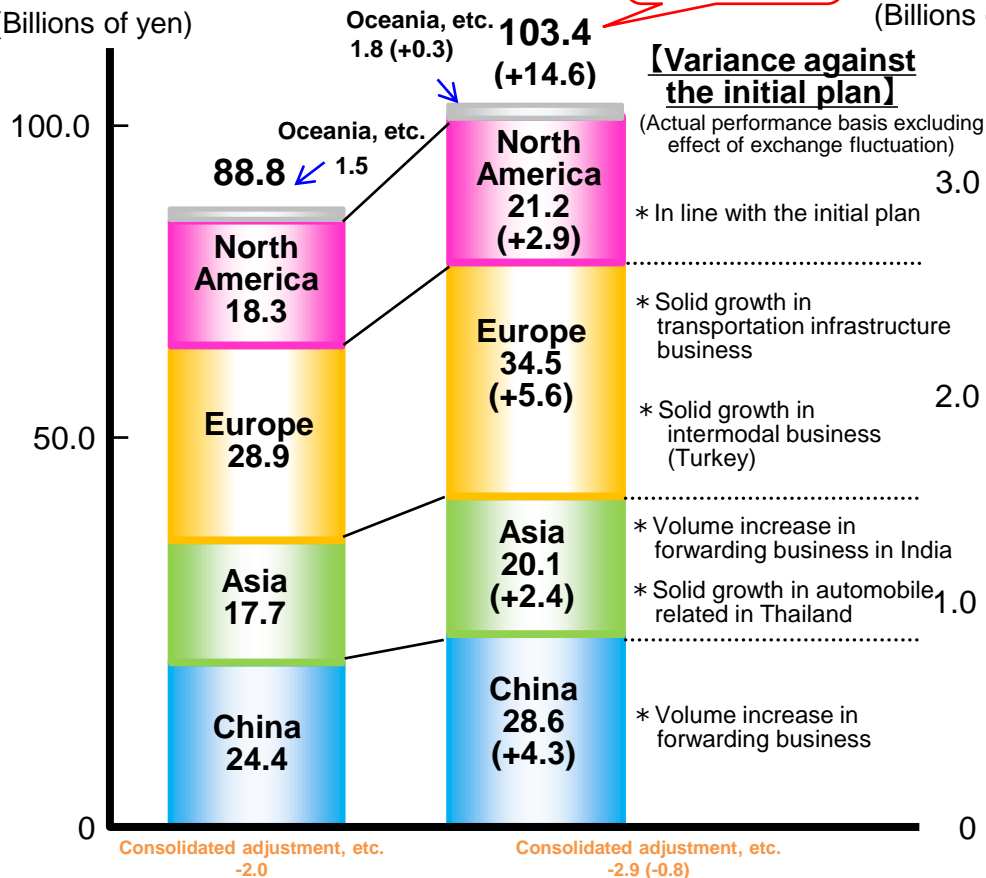
1H of FY2016 (Result)

1H of FY2017 (Result)



Revenues

(Billions of yen)

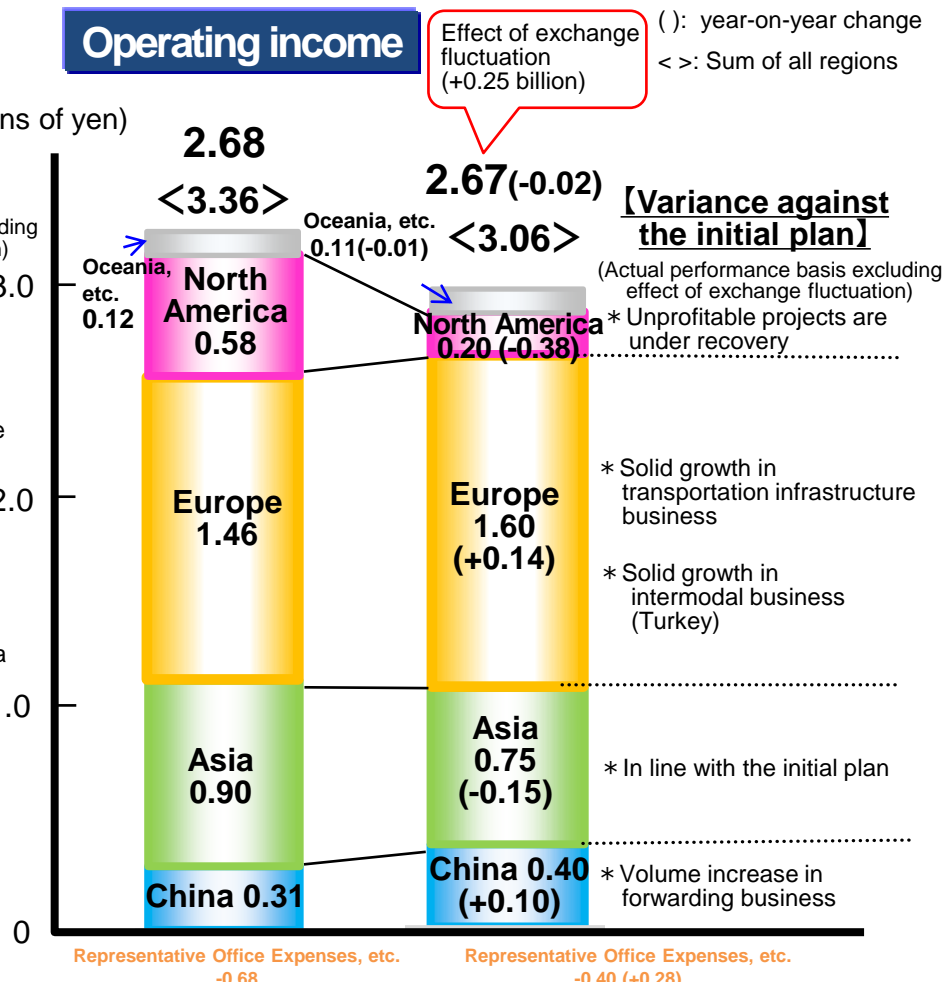


1H of FY2016 (Result)

1H of FY2017 (Result)

Operating income

(Billions of yen)



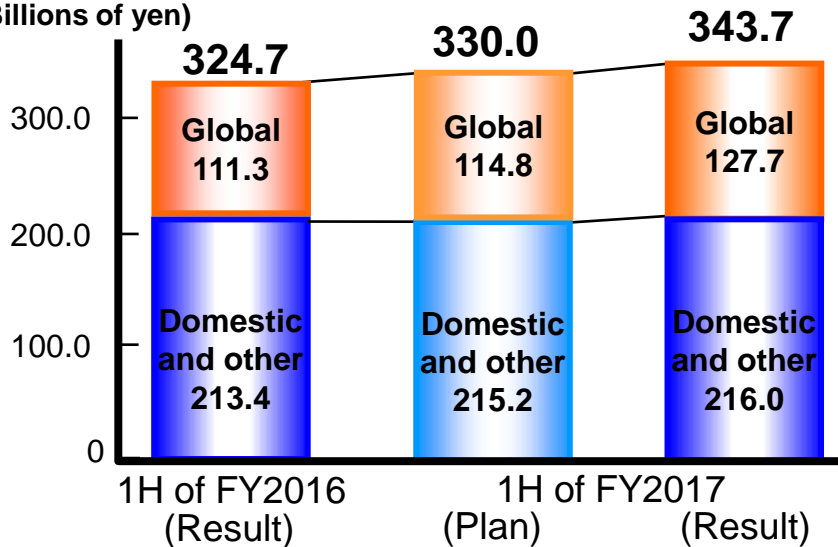
1H of FY2016 (Result)

1H of FY2017 (Result)



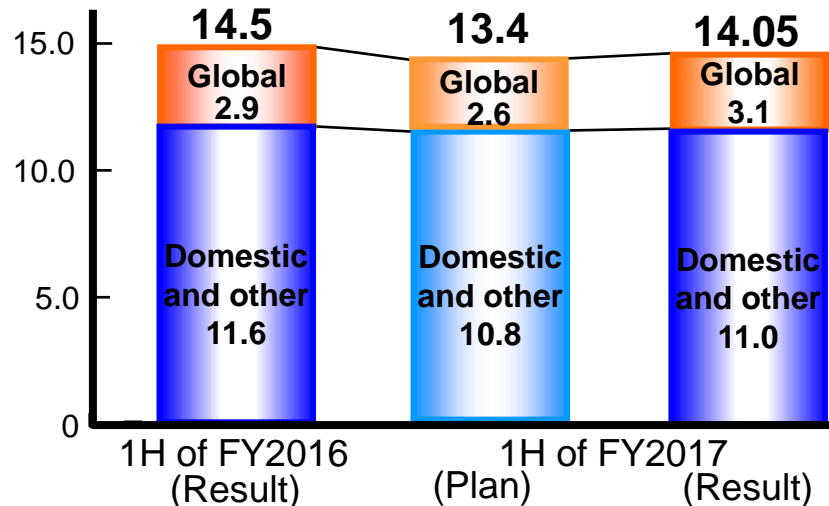
Revenues

(Billions of yen)



Operating income

(Billions of yen)



+13.7 billion yen over initial plan

- * **Global: +12.9 billion yen**
 - Effect of exchange fluctuation: +10.3 billion yen
 - Volume increase in forwarding, etc.: +2.6 billion yen
- * **Domestic, etc.: +0.8 billion yen**
 - New projects/Volume increase, etc.: +0.8 billion yen

Both revenues and operating income grew as planned (excluding effect of exchange fluctuation)

[Initial plan]→[1H of FY2017]
 USD: ¥105→¥111
 EUR: ¥110→¥126
 CNY: ¥15→¥16.4

+0.65 billion yen over initial plan

- * **Global: +0.5 billion yen**
 - Effect of exchange fluctuation: +0.45 billion yen
 - Volume increase in forwarding, etc.: +0.05 billion yen
- * **Domestic, etc.: +0.15 billion yen**
 - Improved operating efficiency and productivity/investment timing gap, etc.: +0.15 billion yen



1H of FY2017: Trend of new orders/new startups

Unit: projects

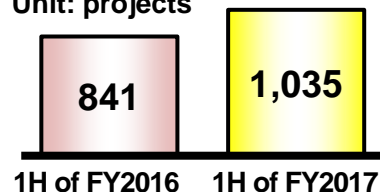
		FY2016		FY2017	
		1H	1H	Y o Y	
New startups	Domestic	11	3	-8	
	Global	2	4	2	
	Total	13	7	-6	
New orders	Domestic	4	16	12	
	Global	2	5	3	
	Total	6	21	15	

(Reference) The number of New Orders of Domestic sales division

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

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

Unit: projects



1H of FY2016

1H of FY2017

• Orders under ¥10 million: 835 (recurring: 82/one-time: 753) → 1,030 (recurring: 146/one-time: 884)

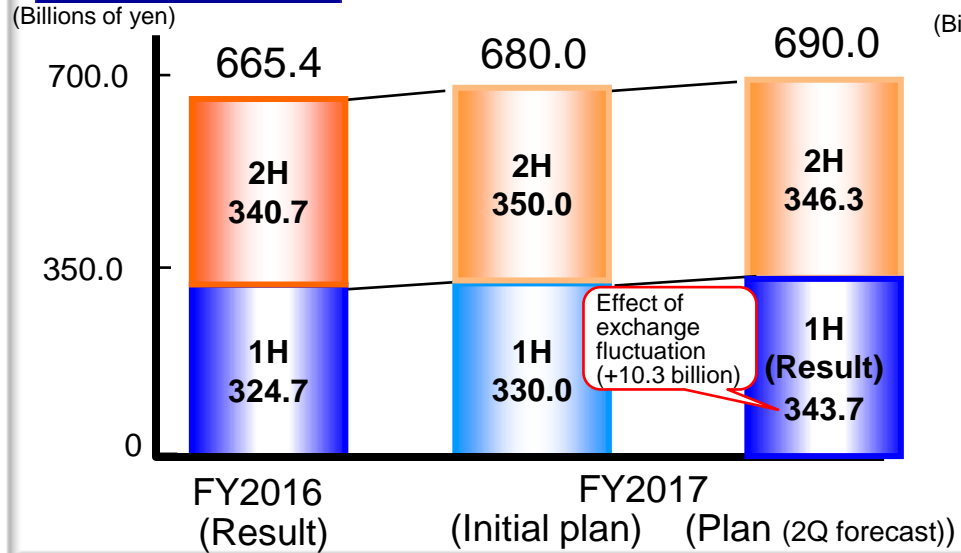
• Orders over ¥10 million: 6 (recurring: 6/one-time: 0) → 5 (recurring: 3/one-time: 2)

Plan

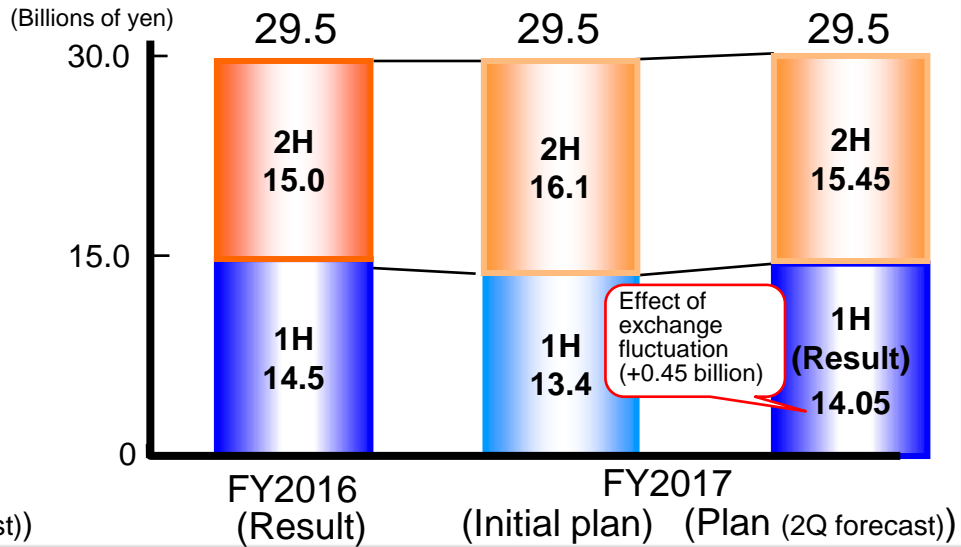
Revenues: 690.0 billion yen **Operating Income: 29.5 billion yen**

Revised on October 26, 2017

Revenues



Operating income



Revenues: 2H results to be in line with the initial plan, with new projects, effect of collaborative innovation, and actualization of business risks

Revised based on the 1H results <Full-year: 680.0 billion yen → 690.0 billion yen (+10.0 billion yen)>

Operating income: Full-year results to be in line with the initial plan, with “external environmental risks” and “strategic investment toward growth” incorporated to 1H results

【Exchange rates (forecast)】
 ...Not changed...
 USD: ¥105
 EUR: ¥110
 CNY: ¥15



DEVELOP NEW BUSINESS MODEL

■ LLP*1 strategy

“Offer high-level LLP with consulting capability and 3PL operation (cross-sectional visualization of supply chain)”

<Service menu> —IT collaboration—

【Design】

- Optimization design
- Drafting improvement plans

【Management】

- Logistics partners management (KPI)
- Supplier management
- Budgeting support

【Operation】

- Carry out shipper’s operations (transportation arrangement/operation)
- 3PL operation

■ Platform center for EC

Services to assist customers to increase their sales and focus on their core businesses

- Introduce labor-saving facilities (Racrew*2/Automatic packing, etc.)
- 24-H operation (low-cost operations with facility sharing, etc.)
- Provide logistics plus a something extra services (order handling, collaborative innovation)
- Product return center (support customers to focus on their core operations)

*1 Lead Logistics Provider

*2 "Racrew" is a registered trademark of Hitachi, Ltd. in Japan.

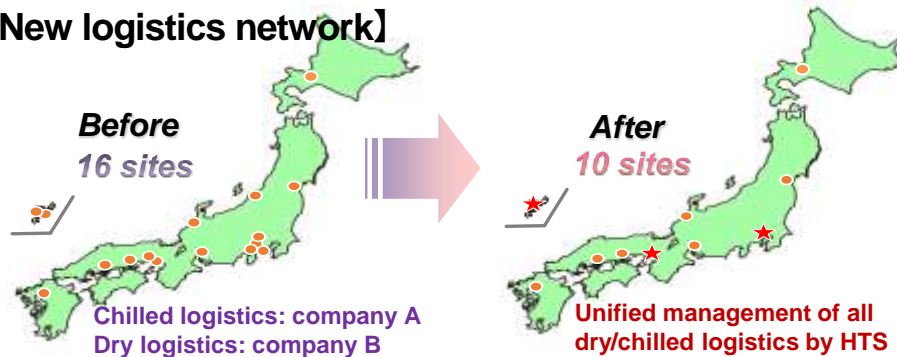
LLP CASE STUDIES (FOOD SERVICE-RELATED)

【Concept】

- ✓ Establish nationwide network and continuous management
- ✓ Smooth transition to new network
- ✓ Flexible location/delivery system
- ✓ Optimize/ensure transparency of logistics costs



【New logistics network】



■ Locate/consolidate centers with a view to customers’ growth



【New Kansai DC (tentative name)】
Operations to be started in Feb. 2018
Kansai Dry/Chilled consolidated center with a view of operations after ten years



EUROPE

- Enhanced Bridge Turkey Project (transportation between Europe and Central Asia)
- Expanded business mainly with automobile related customers



MARS head office warehouse/
Istanbul

NORTH AMERICA

- Expand 3PL business
 - Plan to establish EC center
 - Implement Smart Logistics
 - Plan to establish the center in East Coast area



Pomona DC/California

Toward sustainable growth within the region

ASIA

- Expand cold chain
 - Open new cold warehouse (Malaysia/Nilai)
- Expand CBT business (Innovative collaboration with SG Holdings, etc.)



Nilai Cold Warehouse/Malaysia
(Operations to be started in Nov. 2018)

CHINA

- Advance into inland area
 - Operations started in Northwest DC (Xian)
 - Warehouse for stores/EC and distribution hub in Northwest area
- Established Xian Branch Office



Northwest DC/Xian



DOMESTIC BUSINESS

[Enhanced business resources in Kanto area]

- XD operation for exporting repair parts to North America

Location: Gunma Prefecture



Start of operations: From Jan. 2017

Outline of operations: Warehouse management of repair parts (small/medium-sized—large-sized parts)

- Logistics operations of general engine repair parts

Location: Saitama Prefecture



Start of operations: From Jun. 2017

Outline of operations: Warehouse management and delivery of engine repair parts

OVERSEAS BUSINESS

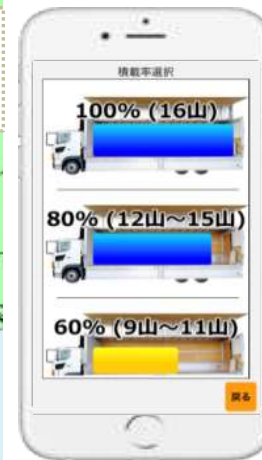
■ Procurement logistics for Thai factories

Start of operations: From Oct. 2017

Outline of operations: Procurement logistics

*Improved loading efficiency with mobile Transportation Management System (TMS)

(Data accumulation – analysis – route review – loading ratio improvement)





ELECTRICITY INFRASTRUCTURE BUSINESS

- Indonesia project (large scale thermal power plant project)
 - Consortium strategy
(Overall project management as a consortium leader)
 - Package PJ management
- Collaborative innovation with competitors
 - Collaborate in transportation of gas turbine rotor for Europe



TRANSPORTATION INFRASTRUCTURE BUSINESS

- Approach with our capability to solve issues and cost competitiveness
 - The U.K. (IEP) • China (vehicle parts transportation)
 - Qatar (Doha Metro) • Thailand (Red Line)
- Advance into new regions/develop new businesses
 - Bangladesh/Egypt/Panama in Central America
 - Vehicle maintenance/transportation of maintenance vehicle

PLANT LOGISTICS/ENVIRONMENT BUSINESS

- Increase plant logistics work for automobile industry
 - In-plant logistics work
 - Production equipment of parts manufacturers
- Expand recycled resource logistics
 - Develop new routes (modal shift)
 - Develop new type of container



STRATEGIC INVESTMENT

- Domestic: Advance into new fields through asset investment (Multi-axle trailer, etc.)
 - Power plant (in-plant transport)
 - Collaborative innovation with competitors
 - Module transport between production processes





ELECTRICITY INFRASTRUCTURE BUSINESS

Methanol DEM plant transport project for Caribbean Gas Chemical Limited(CGCL)





Promote collaborative innovation and collaboration to realize seamless comprehensive logistics service

New approach to strengthen BtoB 3PL

Build new complementary relationship

Horizontal expansion of success case

Item		FY2016 Results		FY2017					
		Revenues		1H Results		3Q/4Q Forecasts		Targets	
				Revenues	Operating income	Revenues	Operating income	Revenues	Operating income
3PL/Transportation	Cross-selling/optimization	1.80	0.12	2.60	0.24	4.20	0.29	6.8	0.53
Forwarding	New services (Smart Import), etc.	0.10	0.02	0.30	0.02	0.40	0.07	0.7	0.10
Heavy Machinery and Plant Logistics	New/Undeveloped fields	0.05	0.01	0.06	0.01	0.04	0.00	0.1	0.01
Others	Vehicles leasing/Travel business, etc.	0.03	0.00	0.10	0.01	0.07	0.01	0.2	0.02
Cross-selling projects (being proposed)		-	-	-	-	7.20	0.34	7.2	0.34
Collaborative Innovation Effect		2.0 billion	0.15 billion	3.0 billion	0.28 billion	12.0 billion	0.72 billion	15.0 billion	1.0 billion
			(7.5%)		(9.4%)		(6.0%)		(6.7%)
[Ref.] Share of profits of investments accounted for using the equity method (including SAGAWA EXPRESS CO., LTD.)		3.7 billion		2.2 billion		-		Over 4.0 billion	

() : Operating margin

Dividends from SAGAWA EXPRESS CO., LTD.



Promote collaboration in cross-selling projects

Provide one-stop service with “Integration of 3PL and Delivery”

■ New order (extract)

Industry : Distribution
Outline : HTS: Warehouse operation
 SG Holdings: Delivery
Schedule: To be started in Mar. 2018

■ Proposed projects

Industry: Apparel
Proposal: Logistics optimization (locations integration, etc.)

*Proposing projects in “Distribution/Retail”, “Food”, and “Apparel” industries in addition to the above

Collaboration in forwarding

Optimal use of domestic and overseas agencies

■ New order (extract)

Received orders for forwarding from/to the U.S. (from Pakistan/India → to the U.S.)

Collaboration in Heavy Machinery and Plant Logistics

■ Collaboration projects (extract)



* Overseas relocation of large equipment



* Internal setting up in complex facility

Proposing (ongoing) projects: Approx. 21.0 billion yen (full-year contribution)



Received orders for delivery inside Hitachi Group's factory

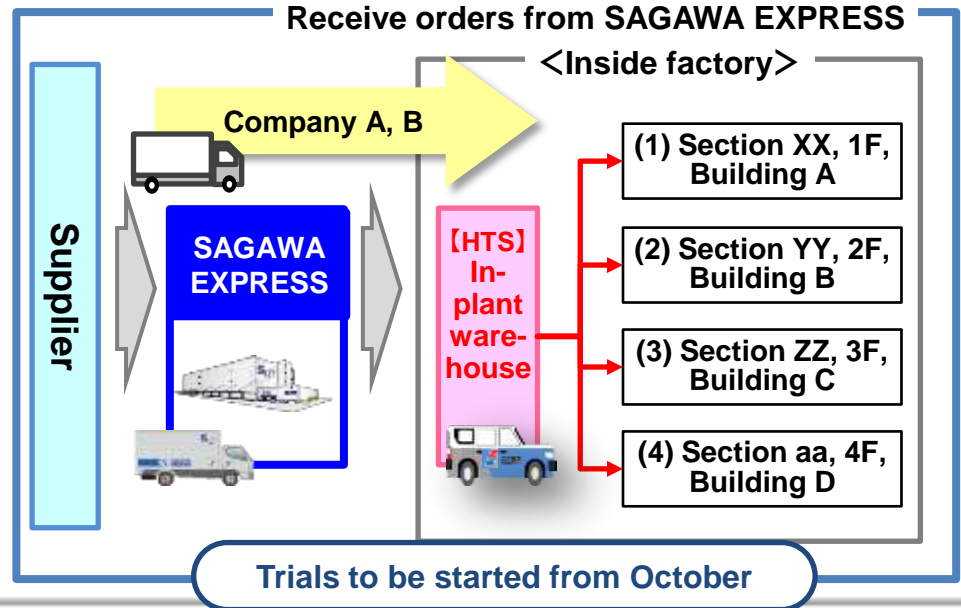
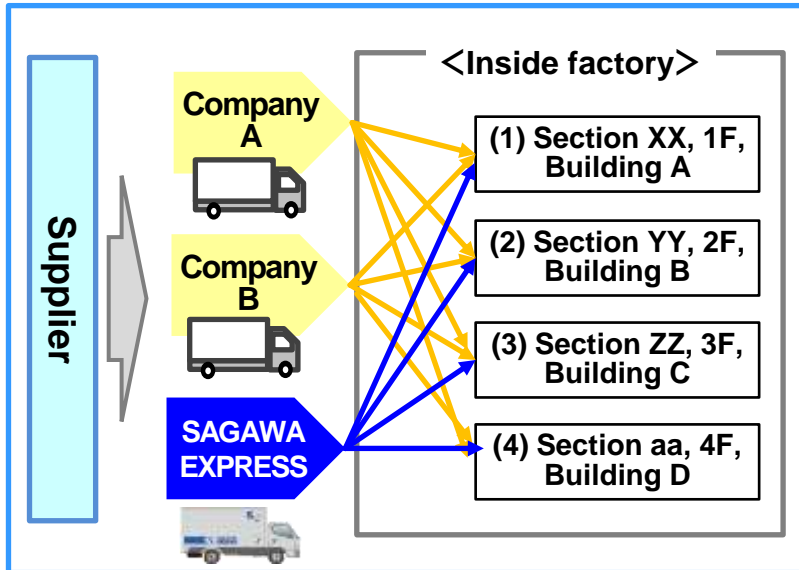
Integration of HTS's in-plant logistics and SAGAWA EXPRESS's "Smart Delivery®"

After arriving at the factory, SAGAWA EXPRESS driver delivers to multiple divisions inside the factory

HTS's sales office inside the factory takes over in-plant delivery

HTS: Effective our in-plant network (collect delivery fee)

SG Holdings: Improve vehicle utilization rate (after arriving at the factory, head off to the next destination)





R&D CENTER (ACCELERATE IMPLEMENTATION OF NEW TECHNOLOGIES)

May: Full-scale operations started at 2nd location



● Racrow

Jun: Trial implementation



● Automated forklift

Oct: Practical implementation



● Auto-tracking AGV

During FY2017: Planning trial implementation



● Image recognition depalletizer

FY2017: Under verification

- Piece picking robot:
Establish basic technology to implement in locations (Develop general technology for picking pieces)
- Utilize RFID/Drone:
Product inspection by RFID and Inventory management using Drone

- Automated inspection system
(Bar code batch scanning, etc.):
Enhance image inspection accuracy to implement in locations
- Automatic packing:
Establish operation required to implement in locations (Automate process of inputting goods)




You can also use the two-dimensional code on the left to watch an introduction video of Smart Logistics.
http://www.hitachi-transportssystem.com/en/solution/smartlogistics/en_smart_movie06.html



KANSAI II MEDICAL DC

■ Operation to be started in February 2018



External appearance (under construction)

Rotary piece sorters, movable racks, and automated forklifts to be implemented
“Maximize facility utilization rate”



Cafeteria

Create pleasant working environment (cafeteria, Wi-Fi, etc.)

TOYAMA PHASE IV DC (EXTENSION)

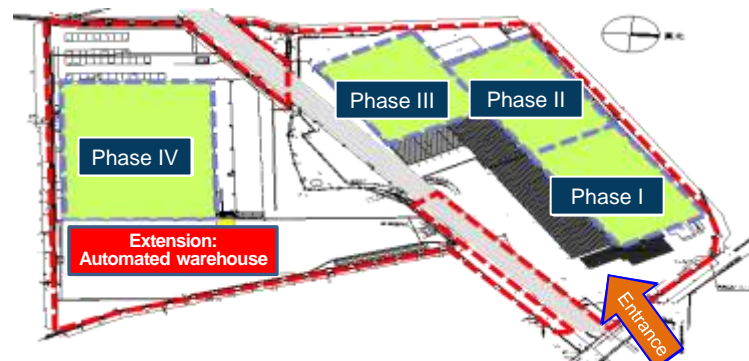
■ Operation to be started in 2019



Automated pallet storage system

Depalletizer, automated forklifts, and automatic labeling equipment to be implemented
Establish a next generation model center utilizing automated storage system (labor saving → unmanned)

【 Layout drawing of Toyama DC 】



Labor-saving logistics center with new technology and pleasant working environment



Supplementary Material

< Financial Position, Cash Flows, etc. >



(Unit : 100 Million yen)

	FY2016	FY2017	
	As of Mar. 31, 2017	As of Sep. 30, 2017	Y o Y
(Assets)			
Current assets	2,049	2,046	-3
Non-current assets	3,451	3,461	10
Total	5,499	5,507	8
(Liabilities)			
Current liabilities	1,511	1,420	-91
Non-current liabilities	2,079	2,099	20
Total	3,590	3,519	-71
(Equity)			
Equity attributable to stockholders of the parent company	1,875	1,951	76
Non-controlling interests	34	36	2
Total	1,909	1,987	78
Total liabilities and equity	5,499	5,507	8



(Unit : 100 Million yen)

	FY2016	FY2017	
	1H	1H	Y o Y
Net cash provided by operating activities	72	100	28
Net cash used in investing activities	-680	-44	636
Net cash provided by (used in) financing activities	617	-120	-736
Effect of exchange rate changes on cash and cash equivalents	-18	11	29
Net increase in cash and cash equivalents	-9	-53	-44
Cash and cash equivalents at beginning of year	451	575	123
Cash and cash equivalents at end of year	442	522	80



Financial Indicator etc.

		FY2016	1H of FY2017
Total equity attributable to stockholders of the parent company*1 (100 Million yen)		34.1 1,875	35.4 1,951
Total equity per share attributable to stockholders of the parent company (Yen)		1,680.70	1,749.01
Basic earnings per share attributable to stockholders of the parent company (Yen)		167.66	83.68
Return on equity (ROE) (annual) (%)		10.3	9.8*2
Return on assets (ROA)(annual) (%)		3.7	3.4*3
Price book-value ratio (PBR) (Ratio)		1.38	1.49

*1.○ indicates total equity attributable to stockholders of the parent company ratio(%)

*2.Forecast for the end of FY2017. *3.Annualized rate.

Major Operating Expenses (Unit: 100 Million yen, (): composition ratio (%))

	FY2016		FY2017			
	1H		1H		Y o Y	
					% change	change
Subcontract Expenses	(50.2)	1,629.6	(51.5)	1,769.0	109%	139.3
Personnel Expenses	(24.7)	802.1	(24.1)	829.0	103%	26.9
Rent Expenses	(7.7)	251.0	(7.3)	252.3	100%	1.2
Depreciation Expenses	(2.8)	91.6	(2.7)	94.2	103%	2.6



Capital Expenditures

(Unit: 100 Million yen)

	FY2016		FY2017	
	1H	Full Year	1H	Full Year (Plan)
Purchased Assets ^{*1}	82.3	156.7	49.3	204.5
(Reference) Leased Assets ^{*2}	107.9	217.7	107.2	390.0
(Reference) Depreciation Expenses	91.6	187.4	94.2	192.2

*1. Based on fixed assets recorded in the balance sheet. *2. Allocated over the period of the lease.

(Ref.) Number of Employees^{*1}

(Unit: Person)

	FY2016		FY2017	
	1H	Full Year	1H	Full Year (Plan)
Regular Employees	25,344	25,274	25,385	26,279
Employees and others ^{*2}	22,430	22,665	22,689	22,536
Consolidated	47,774	47,939	48,074	48,815

*1. Excluding employees of associates accounted for by the equity method.

*2. Including employees who were reemployed after reaching mandatory retirement age.

**Reference**

Results by Business Category (estimated)

*. (): Excluding amortization of customer-related intangible assets. (Unit: 100 Million yen)

		1H of FY2016 (Result)			1H of FY2017 (Result)			Full Year of FY2017 (Plan) (Revised on Oct.26)		
		Revenues	Operating income	Operating margin	Revenues	Operating income	Operating margin	Revenues	Operating income	Operating margin
	Domestic	1,706	90.8	5.3%	1,718	84.1	4.9% (4.9%)	3,512	186.7	5.3% (5.4%)
	Global	545	27.4	5.0%	612	26.2	4.3% (4.6%)	1,191	45.8	3.8% (4.1%)
	3PL	2,251	118.2	5.3%	2,330	110.3	4.7% (4.9%)	4,704	232.6	4.9% (5.0%)
	Domestic	222	2.8	1.3%	246	4.8	2.0% (2.9%)	489	7.1	1.5% (2.4%)
	Global	250	2.1	0.9%	307	3.5	1.1% (2.1%)	570	5.1	0.9% (2.0%)
	Forwarding	473	5.0	1.0%	553	8.3	1.5% (2.4%)	1,058	12.2	1.2% (2.2%)
	Domestic	328	7.3	2.2%	333	10.1	3.0% (4.3%)	692	22.6	3.3% (4.5%)
	Global	95	3.0	3.2%	114	1.0	0.9% (1.3%)	228	4.7	2.1% (2.5%)
	Automobile	423	10.3	2.4%	447	11.2	2.5% (3.6%)	920	27.3	3.0% (4.0%)
	Other services	100	11.5	11.5%	107	10.7	10.0% (10.0%)	218	22.9	10.5% (10.5%)
	Total	3,247	145.0	4.5%	3,437	140.5	4.1%	6,900	295.0	4.3%

*. Company-wide expenses is planned to partly change the method of allocation from FY2017. Figures above are reflected this alternation.

October 26, 2017

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