

October 26, 2018

The 2nd Quarter of FY2018 (Ended September 30, 2018) Financial Results Briefing

 **Hitachi Transport System, Ltd.**

I. 1H of FY2018 Financial Results

[Summary of Financial Results]

Overview, Breakdown by Group, 1H of FY2018 Detail of Variations for Revenues/Operating Income, Profits by Indicators, Overseas Results by Region, Trend of New Orders/New Startups

II. FY2018 Plan

[FY2018 Plan]

Overview, Collaborative Innovation Project with SG Holdings, Toward Further Expansion of Collaborative Innovation

(Smart Logistics, Smart Warehouse for EC Industry, Industry-based Platform, New Strategic Investments, Business Alliance)

III. Supplementary Material

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



(Unit: 100 million yen, rounded off to the nearest integer. < > parentheses are profit ratios (%))

	FY2017	FY2018				
	1H	1H			Full-year	
	Results	Results	Y o Y		Plan (As of Apr. 27)	Y o Y
			%	Change		
Revenues	3,437	3,524	103%	87	7,100	101%
Operating income*	<4.1> 140.5	<4.2> 148.5	106%	8.0	<4.4> 310.0	104%
EBIT (Earnings before interest and taxes)	<4.6> 156.9	<4.2> 148.2	94%	-8.7	<4.9> 347.0	105%
Net income attributable to stockholders of the parent company	<2.7> 93.3	<2.4> 83.2	89%	-10.1	<3.0> 215.0	103%

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



1H of FY2018 Results [Breakdown by Group]

3

(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	<59>	1,782	104%	93.4	102%	
	Global logistics	Overseas	<29>	895	102%	32.1	129%
		Allocated to domestic companies (forwarding and others)	<8>	258	100%	✓ -0.4	(-4.3)
	Total	<38>	1,153	101%	31.7	110%	
	Others (logistics-related businesses, etc.)	<3>	105	97%	7.5	91%	
Total		<100>	3,040	103%	132.6	103%	
Vantec Group	Domestic logistics	<66>	362	103%	15.9	107%	
	Global logistics	Overseas	<34>	184	101%	5.1	180%
		Allocated to domestic companies (forwarding and others)	<0>	0	-	0.0	-
	Total	<34>	184	100%	5.1	180%	
Total		<100>	546	102%	21.0	119%	
Consolidated Adjustment/Amortization of customer-related intangible assets of VANTEC Group, etc.		-	-62	(-2)	-5.1	(+0.2)	
Total	Domestic logistics	<60>	2,128	104%	105.1	103%	
	Global logistics	Overseas	<30>	1,050	101%	36.2	136%
		Allocated to domestic companies (forwarding and others)	<7>	244	100%	-0.4	(-4.3)
	Total	<37>	1,293	101%	35.8	117%	
	Others (logistics-related businesses, etc.)	<3>	102	97%	7.5	91%	
Total		<100>	3,524	103%	148.5	106%	

✓ Cost allocated to domestic companies (forwarding and others) increased by 160 million yen from a year earlier due to a partial change in the allocation method of company-wide expenses. (Adjusted operating income would have been 120 million yen under the previous method.)



1H of FY2018 Revenues (Result)

(100 million yen)

1H of FY2017 → 1H of FY2018

- USD: ¥ 111 → ¥ 110
- EUR: ¥ 126 → ¥ 130
- CNY: ¥ 16.4 → ¥ 16.8

- Domestic/other: -44
- Global business: -33
- Expansion of operations: +22

- Domestic: +37
- Global: +38

3,437

Effect of exchange fluctuation
+3

Environmental/volume changes/continuous improvement, etc.
-55

New orders
+75

Collaborative innovation
+64

3,524

+139

1H of FY2018 Sales from collaborative innovation: 94

+87

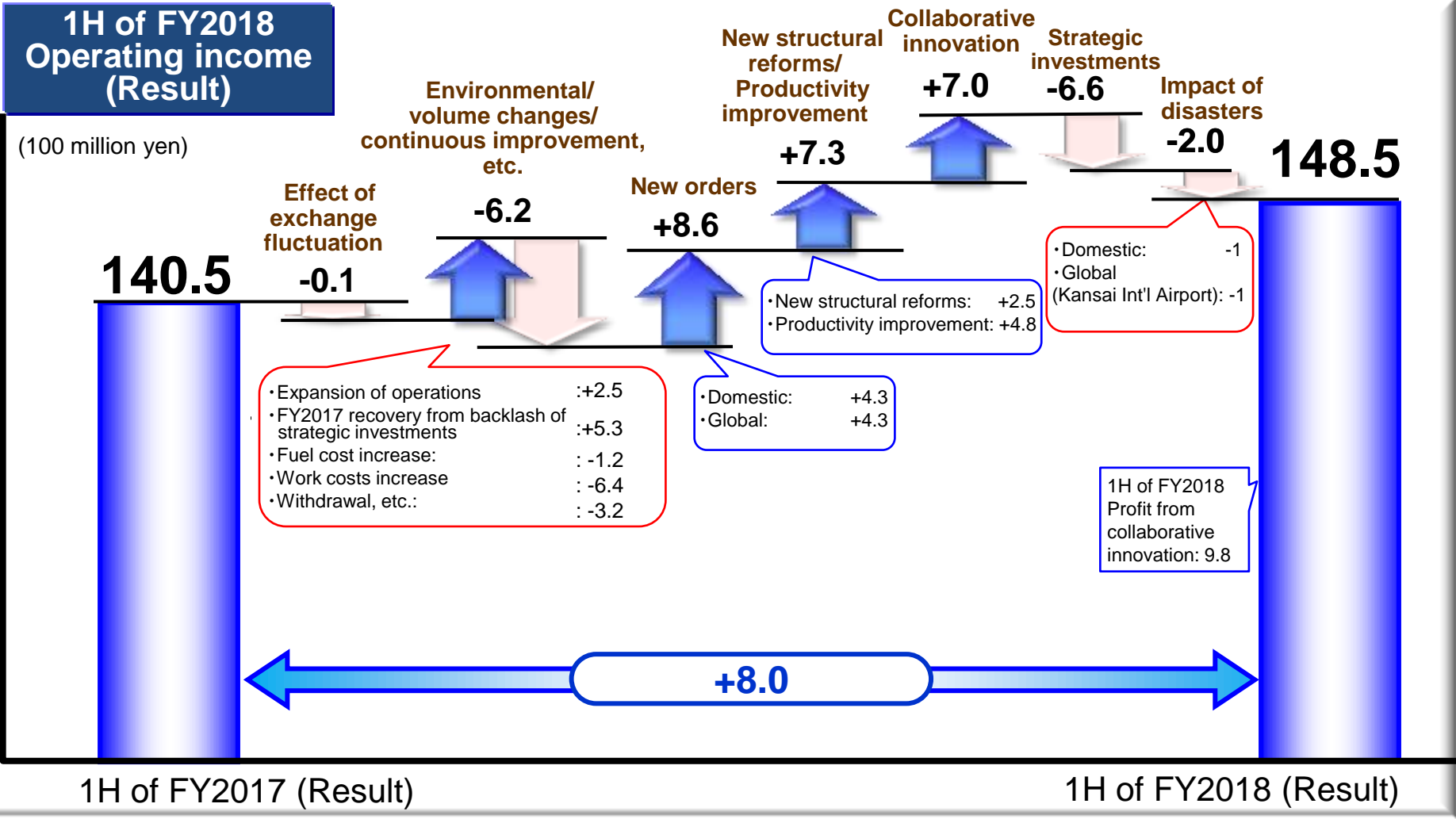
	Effect of exchange fluctuation	Environmental/volume changes/continuous improvement, etc.			New orders	Collaborative Innovation projects	Total
		Other volume changes, etc.	Expansion of operations	Subtotal			
Domestic		-40	16	-24	37	61	74
Global	3	-33	6	-27	38	2	16
Other		-4		-4		1	-3
Total	3	-77	22	-55	75	64	87

1H of FY2017 (Result)

1H of FY2018 (Result)



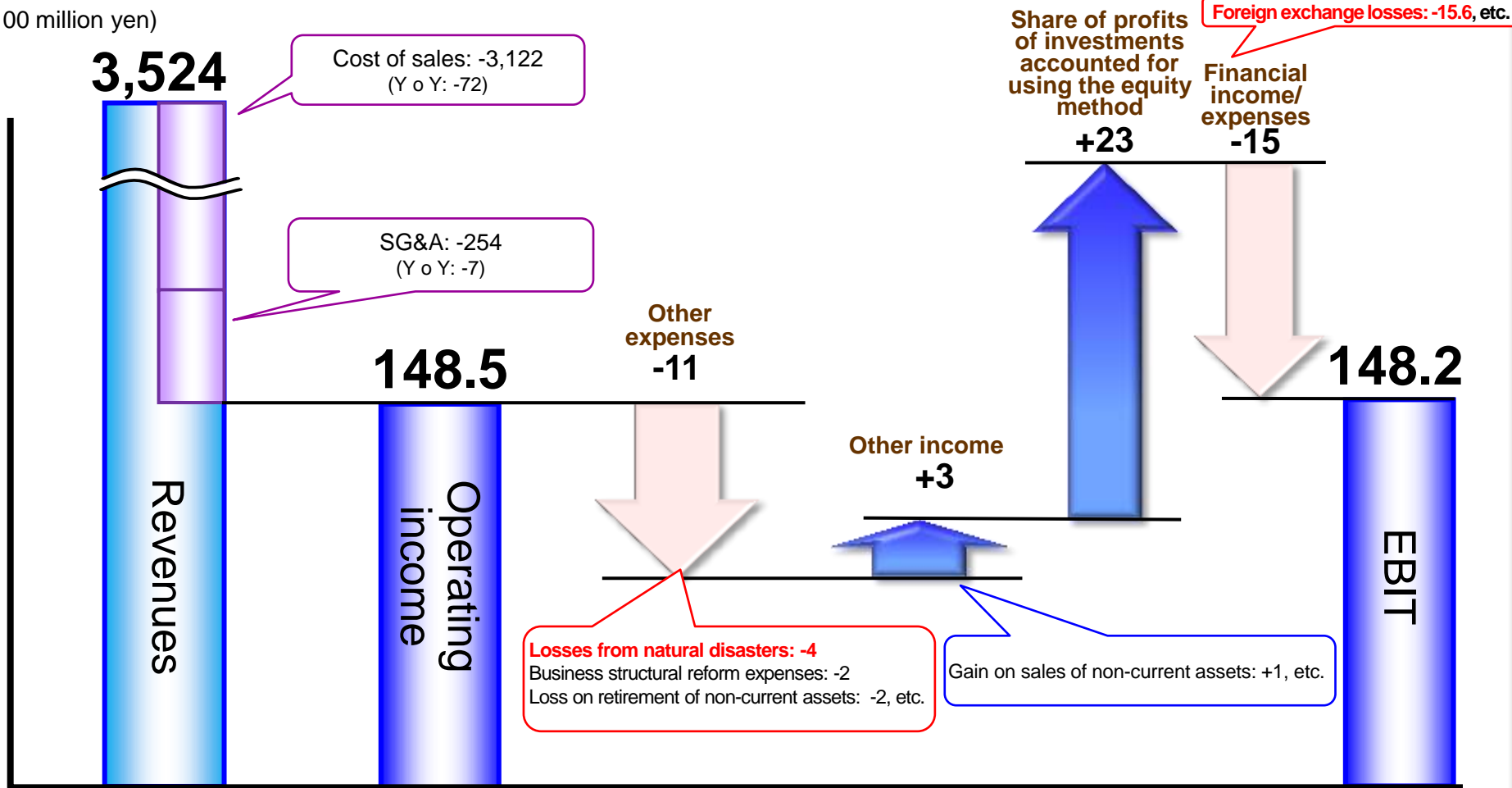
1H of FY2018 Results [Detail of Variations for Operating Income]





1H of FY2018 Results [Profits by Indicators]

(100 million yen)





(Unit: 100 million yen, rounded off to the nearest integer. () parentheses are operating margins)

		FY2017		FY2018			
		1H		1H			
		Revenues	Operating income	Revenues	Y o Y	Operating income	Y o Y
Overseas	North America	212	2.0	226	106%	6.0	298%
	Europe ^{*1}	345	16.0	353	102%	17.4	109%
	Asia (excluding China)	201	7.5	225	112%	10.2	137%
	China	286	4.0	257	90%	5.4	133%
	Oceania and Others	18	1.1	19	104%	1.5	135%
	Elimination of intra-company transactions, etc. ^{*2}	-29	-4.0	-29	-	-4.3	-
Total		1,034	(2.6%) 26.7	1,050	101%	(3.5%) 36.2	136%

*1. Turkey is treated as an European country.

*2. Amortization of Customer-related intangible assets of VANTEC Group is included in "Elimination of intra-company transactions, etc."



1H of FY2018: Trend of New Orders/New Startups

Unit: projects

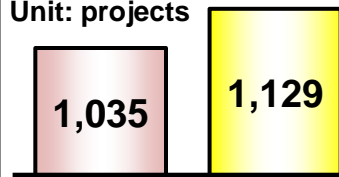
		FY2017	FY2018	
		1H	1H	Y o Y
New Orders	Domestic	16	8	-8
	Global	5	5	0
	Total	21	13	-8
New Startups	Domestic	3	13	10
	Global	4	5	1
	Total	7	18	11

(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 FY2017 1H of FY2018

1H of FY2017

1H of FY2018

• Orders under ¥10 million: 1,030 (recurring: 146/one-time: 884) → 1,123 (recurring: 122/one-time: 1,001)

• Orders over ¥10 million: 5 (recurring: 3/one-time: 2) → 6 (recurring: 2/one-time: 4)



Plan

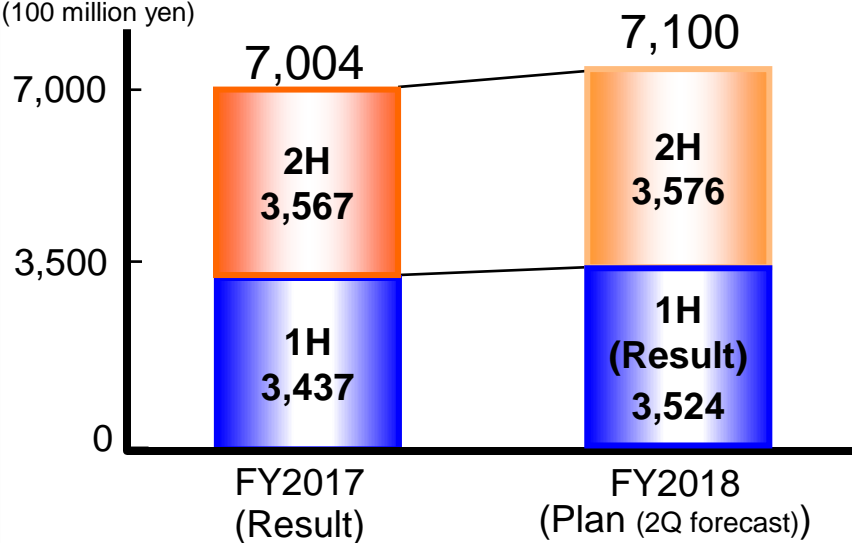
Revenues: 7,100

Operating Income: 310

(Unit: 100 million yen)

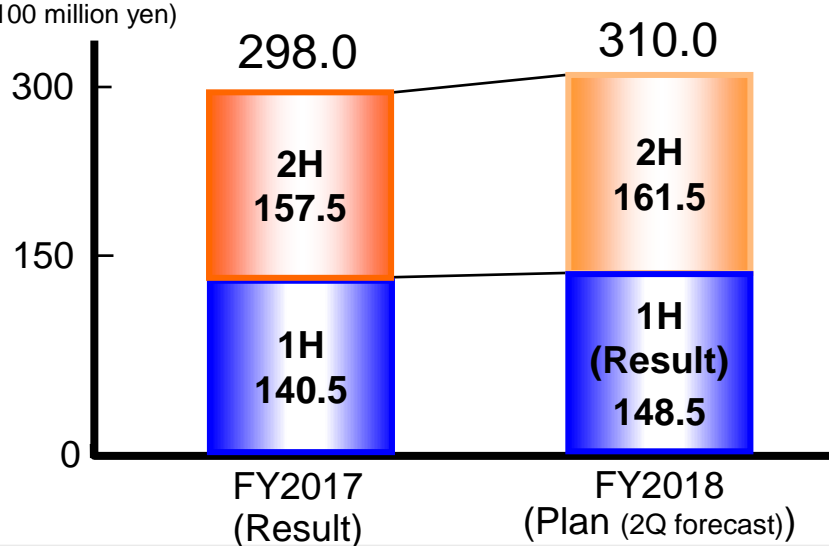
Revenues

(100 million yen)



Operating income

(100 million yen)



Revenues: 1H results were in line with the initial plan, with new projects and expanded effects of collaborative innovation

Operating income: 1H results were in line with the initial plan due to steady performance of each segment despite impacts of natural disasters

No change in the full-year plan



Promote collaborative innovation and collaboration to realize seamless comprehensive logistics service

(Unit: 100 million yen)

Item			FY2017				FY2018			
			1H results		Full-year results		1H results		Full-year plan	
			Revenues	Operating income	Revenues	Operating income	Revenues	Operating income	Revenues	Operating income
Domestic	3PL/Transportation	Cross-selling/optimization	26	2.4	101	9.7	87	8.8	-	-
	Others	Heavy Machinery and Plant Logistics, etc.	1	0.1	1	0.2	1	0.1	-	-
	Subtotal		26	2.5	103	9.9	87	8.9	186	18.4
Global	3PL/Transportation	Cross-selling/optimization	0	0.0	1	0.1	1	0.1	-	-
	Others	Heavy Machinery and Plant Logistics/ Forwarding, etc.	3	0.3	6	0.7	4	0.7	-	-
	Subtotal		3	0.3	7	0.8	4	0.8	11	1.2
Others	Others	Vehicles leasing/Travel business, etc.	1	0.1	2	0.1	2	0.1	-	-
	Subtotal		1	0.1	2	0.1	2	0.1	3	0.4
	3PL/Transportation	Cross-selling/optimization	26	2.4	102	9.8	87	8.9	-	-
	Others	Heavy Machinery and Plant Logistics/ Forwarding, etc.	4	0.4	9	1.0	7	0.9	-	-
	Collaborative Innovation Effect			(9.4%)		(9.7%)		(10.4%)		(10.0%)
() : Operating margin			30	2.8	111	10.8	94	9.8	200	20

■ Progress rate of full-year plan: 47% 49%



Promote collaboration in cross-selling projects

■ Major ongoing projects in FY2018

— Operations started —

- April: Retail products
- May: Apparel manufacturer
- June: Beverage manufacturer
- July: Shoes manufacturer
- August: Food manufacturer
- August: Shoes manufacturer
- September: Food manufacturer

— Operations to be started —

- November: Publishing company
- January 2019: Apparel manufacturer, etc.

■ Proposed projects

- Apparel manufacturer
- Cosmetic manufacturer
- Food manufacturer
- Electrical machinery/
industrial equipment manufacturer
- Retail products
- Publishing company
- Chemical manufacturer, etc.

(Unit: 100 million yen)

Approx. 200 (full-year contribution)



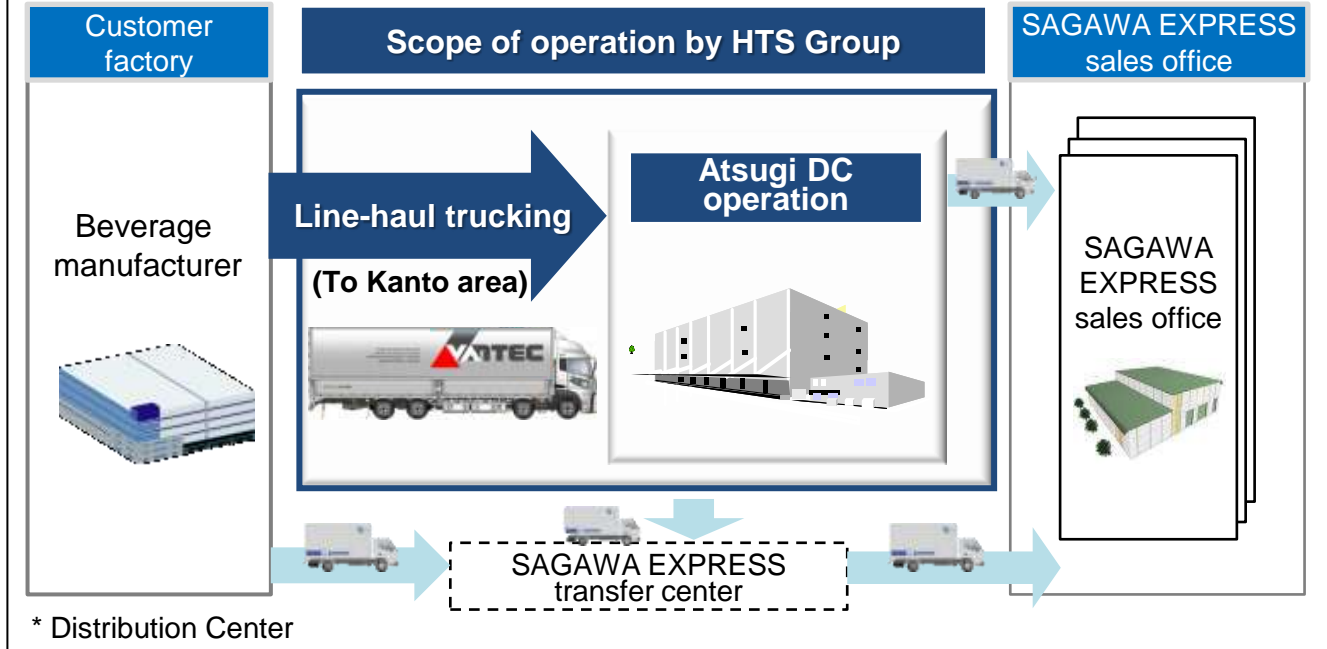
Operation of beverage manufacturer's DC* (Kanagawa Prefecture)

[Implementation] From June 2018

[Details] HTS Group: Customer factory → Line-haul trucking & DC operation

SGH Group: Customer factory → Transfer center → Sales offices → Home delivery

Outline of service



《Reasons for winning orders》

Hitachi Transport System

Ability to make optimum proposals

×



Transportation capability

×

SAGAWA

Customer network



Future Vision: Global Supply-Chain Solutions Provider

S_oH | SAGAWA



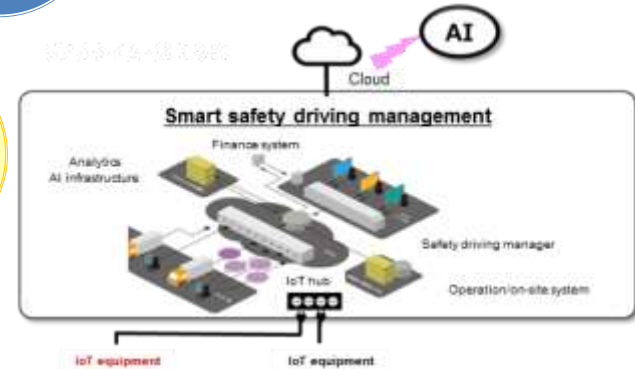
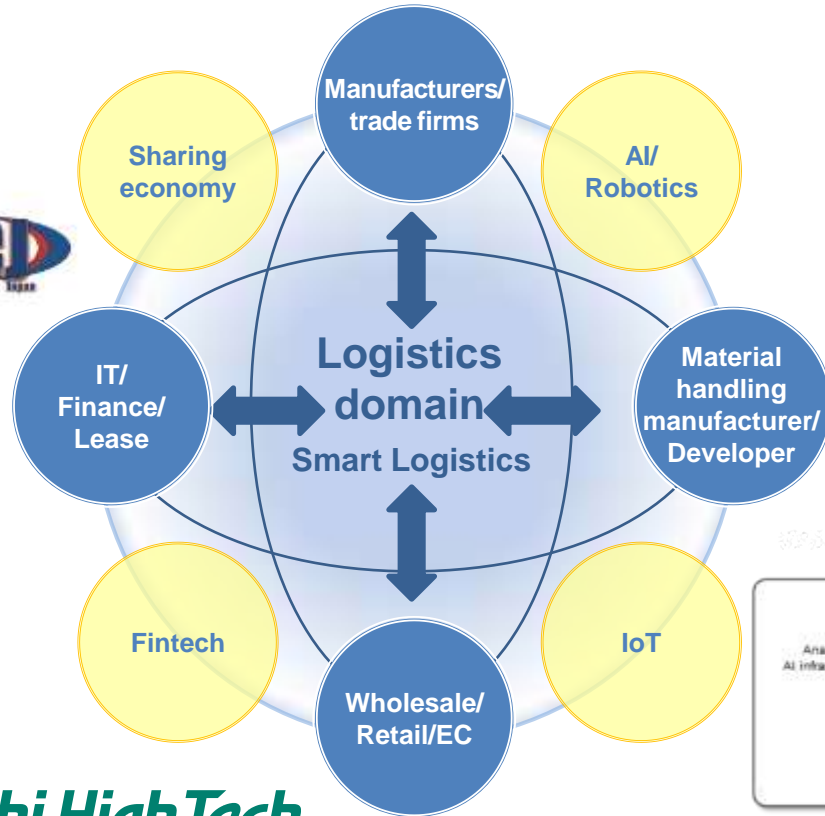
Platform
(Sharing by industry and area)



SCM Finance

Hitachi Capital Corporation

Hitachi High-Tech





Future Vision: Global Supply-Chain Solutions Provider

S_oH | SAGAWA

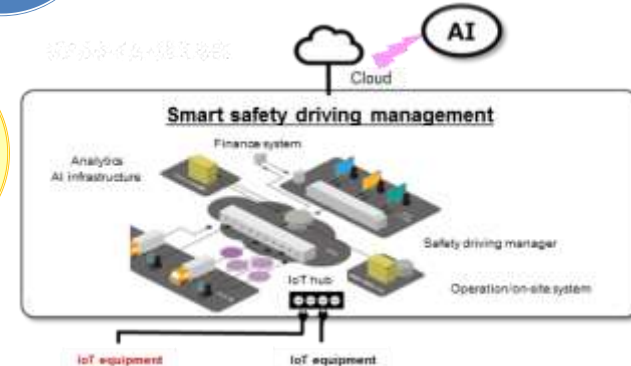
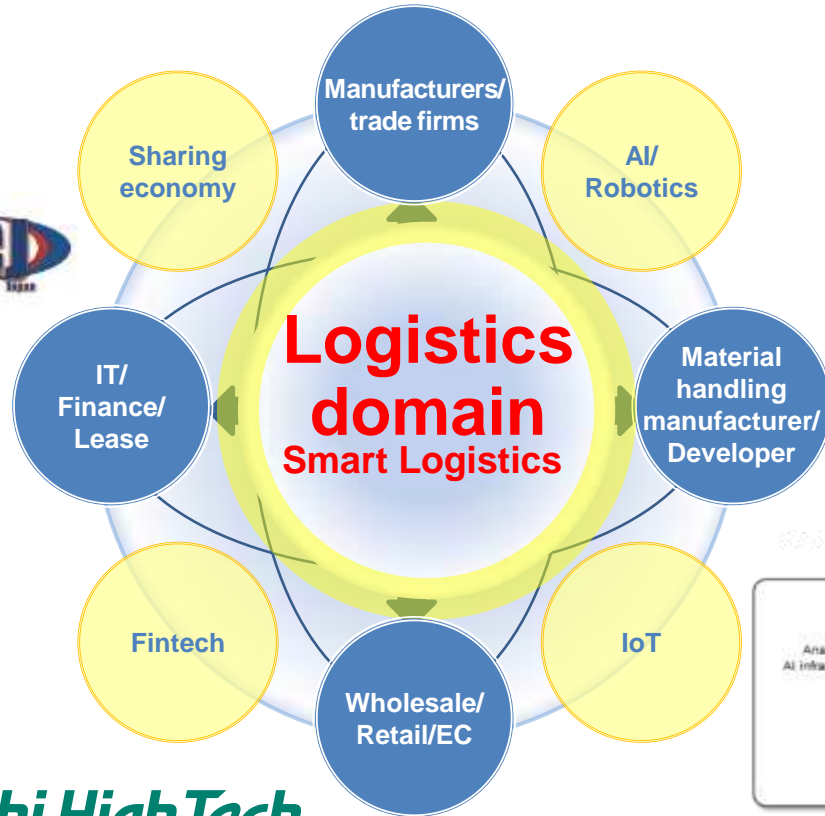


Platform
(Sharing by industry and area)



Hitachi Capital Corporation

Hitachi High-Tech





■ Apparel: Added Racrew* (from Mar. 2018)
Rotary piece sorters
(planned in Dec. 2018)



■ Electrical machinery: Spectacle-type
wearable device
(From Apr. 2018)



[Ref.] R&D Center:
Verifying movable dual-arm piece picking robot



■ Medical: Rotary piece sorters (from May 2018), automated forklift (from Jun. 2018)



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

Model center for labor-saving factory (daily commodities related)



+

Automation of case shipping



Automated forklift

- Inspection-less
- Automated conveyance
- Labor-saving vanning

Use of new technologies in overseas (North America/Apparel)



(Pick-Assist Autonomous Mobile Robot)

- Material handling assist-type multi-picking
- Automated conveyance/forwarding (unmanned)

Expansion of applicable scope of automated forklift (Medical related)



Rider-type automated forklift

- Enhancing the versatility (A worker can operate when it is not in unmanned operation)

“Shared platform center” in which multiple customers share resources

Customer value Create customer value by sharing “facilities,” “systems,” “space” and “manpower” + automated/standardized operation

- Save individual investment
 - Small start/quick start/future expansion of offices
- Automated facilities and standardized operation
 - Assure quality to end users
- Pay per Use
 - Visualize costs/
Make costs to variable expenses

Contribute to expansion of customers' EC



[Introduction of labor-saving technology]

Automation/ on-demand technology

■ Bulk inspection using automated picking system, image analysis, and sensor recognition

■ Prepare delivery slips and leaflets on demand and put them in automatically

■ Packing by automated packing machine
■ Print delivery destination on boxes on demand

Realize labor-saving of over 50% compared with the traditional operation



Sports & Shoes Platform Town

(Operations started in Aug. 2018)

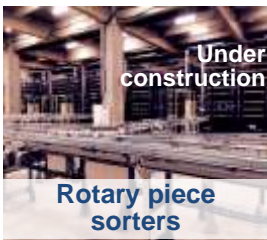


Location: Kashiwa City, Chiba Prefecture
Total floor space: 117,000 m² ■ Handling: Sports-related

Platform Town by consolidating/optimally allocating sports and shoes sites concentrating in Tokatsu area in Chiba Prefecture

Storage efficiency 20% up × labor-saving of 20%

[Equipment to be implemented]
Progressing as planned



Rotary piece sorters

(Start operation in November)



Automated pallet storage system

(Start operation in December)



Dashboard cameras for forklifts

(To be installed in all vehicles in November)

■ **Promotion of labor-saving**
Introducing rotary piece sorters and automated pallet storage system

■ **Advanced safety technology**
Introducing dashboard cameras for forklifts and 360-degree cameras

■ **Appropriate on-site work and manpower (Mobilization of human resources)**
Introducing WVS*

* Warehouse Visualized System

Strategic investments for sustainable growth

Major strategic investments

1	Smart Warehouse for EC industry
2	Smart safety driving management system (SSCV)
3	Digital platform
4	Working-style reform (Implementing RPA, etc.)
5	Develop new business model
6	Implementation of new technologies in overseas
7	Others

[FY2018 investment (plan)]: **35**
(Unit: 100 million yen)

Accelerate differentiation strategy

- Impact on PL:
 - 1H (result): 6.6
 - Full-year (plan): 21
- (Unit: 100 million yen)

Smart safety driving management system



- September 2018: Opened SSCV* office in Ueno, Tokyo
✓ Built a system to accelerate the initiative
- FY2018: Installed in HTS Group vehicles for verification
✓ To be commercialized after FY2019

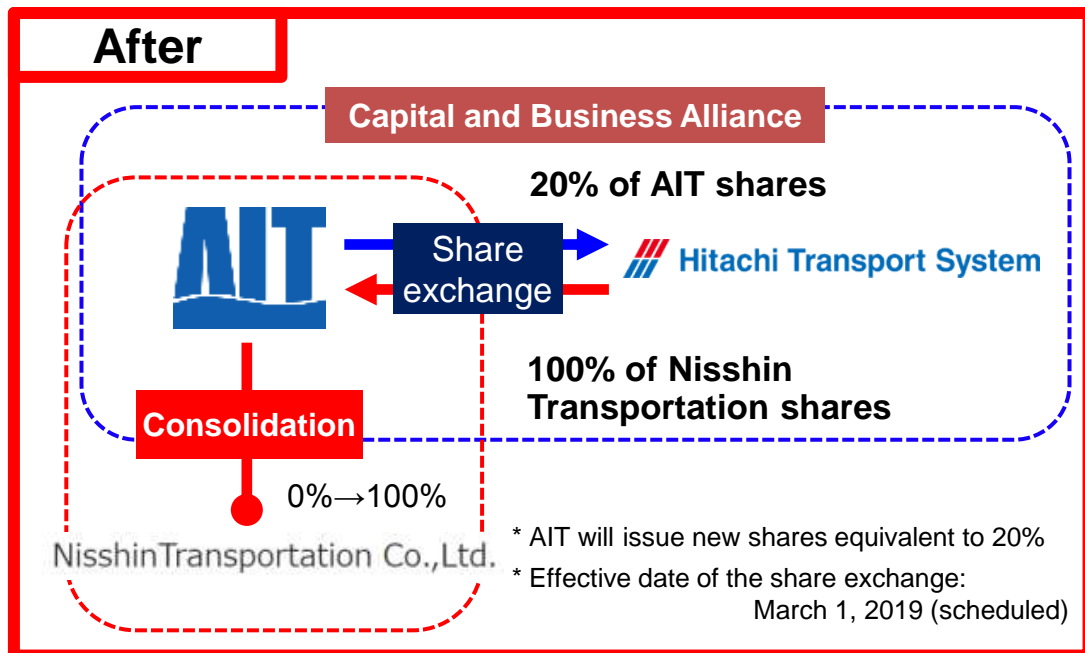
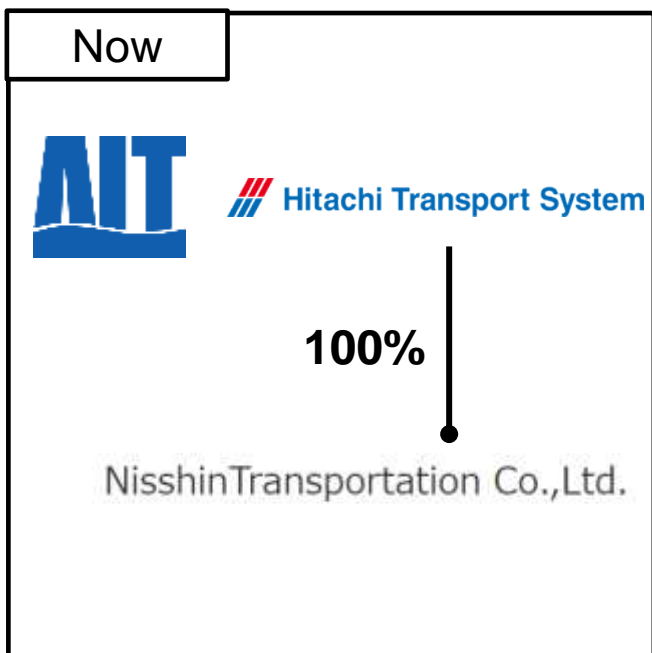
* Smart & Safety Connected Vehicle



■ Capital and business alliance with AIT Corporation

■ Share exchange between AIT and Nisshin Transportation

* HTS will transfer 100% of Nisshin Transportation shares to AIT and acquire 20% of AIT shares





- **Realize comprehensive logistics services through a seamless alliance between 3PL and forwarding**
 - ☑ **Build seamless logistics services including 3PL, delivery, and forwarding**
 - ☑ **Strengthen alliance across modes in North America, Europe, and ASEAN in addition to Japan-China (collaboration with VANTEC HTS FORWARDING and others)**
 - ☑ **Enhance logistics services including trilateral trade and intraregional transport**

- **Establish platforms for apparel and FMCG logistics**
 - ☑ **Share each company's know-how to increase the presence in apparel and FMCG logistics**

- **Collaboration in non-apparel and non-FMCG fields**
 - ☑ **Strengthen sales to customers in non-apparel and non-FMCG fields and expand customer base**



 Hitachi Transport System

Business alliance



Purpose

Promote measures to **realize innovation with various collaborative innovation partners exceeding the domains of the existing businesses and industries** through collaboration with Uhuru having an advantage in IoT operation support and IP strategy

Establish an open platform creating new values and services by promoting optimization and automation across SCM and utilizing various data

Detail

- (1) **Build ecosystem**: Develop a collaborative innovation partner model in collaborative innovation areas, build an ecosystem, etc.
- (2) **IP strategy**: Offer insights and know-how each other, develop/apply for joint patent, etc.
- (3) **Promotion**: Plan and host events for partners and seminars for market, etc.



■ 2011: Business alliance with KWE (established PCJ)



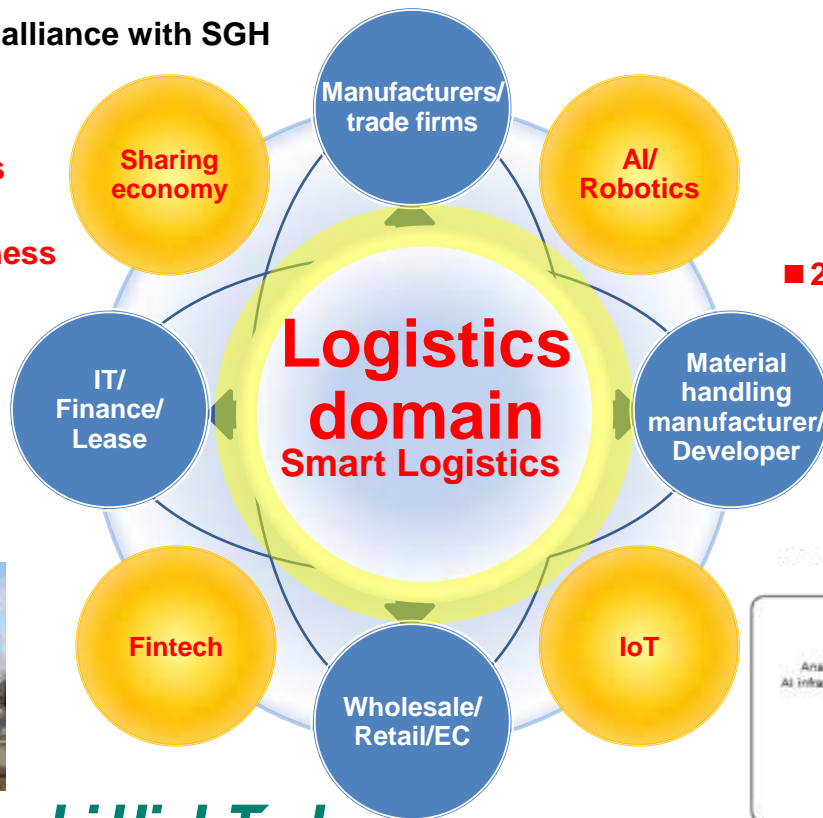
■ 2016: Capital and business alliance with SGH Logistics+Delivery



■ 2018: Capital and business alliance with AIT



Forwarding business (Apparel/China)



■ 2018: Business alliance with Uhuru



Digital platform



SCM Finance

Hitachi Capital Corporation

Hitachi High-Tech





Supplementary Material

< Financial Position, Cash Flows, etc. >



(Unit : 100 million yen)

	FY2017	FY2018	
	As of Mar. 31, 2018	As of Sep. 30, 2018	Y o Y
(Assets)			
Current assets	2,202	2,587	385
Non-current assets	3,448	3,462	14
Total	5,649	6,048	399
(Liabilities)			
Current liabilities	1,478	1,309	-169
Non-current liabilities	2,088	2,581	493
Total	3,566	3,890	324
(Equity)			
Equity attributable to stockholders of the parent company	2,043	2,116	73
Non-controlling interests	40	42	2
Total	2,083	2,158	75
Total liabilities and equity	5,649	6,048	399



(Unit : 100 million yen)

	FY2017	FY2018	
	1H	1H	Y o Y
Net cash provided by operating activities	100	153	52
Net cash used in investing activities	-44	-68	-24
Net cash provided by (used in) financing activities	-120	334	454
Effect of exchange rate changes on cash and cash equivalents	11	4	-7
Net increase in cash and cash equivalents	-53	423	475
Cash and cash equivalents at beginning of year	575	635	60
Cash and cash equivalents at end of year	522	1,058	536



Financial Indicators etc.

		FY2017	1H of FY2018	FY2018 (forecast)
Total equity attributable to stockholders of the parent company*1	(100 Million yen)	36.2 2,043	35.0 2,116	36.6 2,321
Total equity per share attributable to stockholders of the parent company	(Yen)	1,831.72	1,896.98	2,080.33
Basic earnings per share attributable to stockholders of the parent company	(Yen)	187.50	74.62	192.74
Return on equity (ROE)(annual)	(%)	10.7	8.0*	9.6
Return on assets (ROA)(annual)	(%)	3.8	2.8*	3.6
Return on invested capital (ROIC) (annual)	(%)	5.8	4.2*	5.2
Price book-value ratio (PBR)	(Ratio)	1.63	1.68	-

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

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

	FY2017		FY2018			
	1H		1H		Y o Y	
					% change	change
Subcontract Expenses	(51.5)	1,769.0	(51.0)	1,795.7	102%	26.8
Personnel Expenses	(24.1)	829.0	(23.8)	838.9	101%	9.9
Rent Expenses	(7.3)	252.3	(7.7)	270.1	107%	17.8
Depreciation Expenses	(2.7)	94.2	(2.7)	94.8	101%	0.7



Capital Expenditures

(Unit: 100 million yen)

	FY2017		FY2018	
	1H	Full Year	1H	Full Year (Plan)
Purchased Assets ^{*1}	49.3	130.1	89.6	246.0
(Reference) Leased Assets ^{*2}	107.2	254.6	113.1	464.7

*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)

	FY2017		FY2018	
	1H	Full Year	1H	Full Year (Plan)
Regular Employees	25,385	25,074	25,396	25,818
Employees and others ^{*2}	22,689	22,710	23,138	22,746
Consolidated	48,074	47,784	48,534	48,564

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

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



Reference

Results by Business Category (estimated)

*() : Excludes amortization of customer-related intangible assets. (Unit: 100 million yen)

	1H of FY2017 (Result)			1H of FY2018 (Result)			Full Year of FY2018 (Plan) (As of Apr.27)		
	Revenues	Operating income	Operating Margin	Revenues	Operating income	Operating margin	Revenues	Operating income	Operating margin
Domestic	1,718	83.8	4.9% (4.9%)	1,783	90.3	5.1% (5.1%)	3,637	180.6	5.0% (5.0%)
Global	612	27.9	4.6% (4.9%)	647	29.2	4.5% (4.9%)	1,312	59.6	4.5% (4.9%)
3PL	2,330	111.6	4.8% (4.9%)	2,429	119.5	4.9% (5.0%)	4,949	240.2	4.9% (5.0%)
Domestic	246	4.0	1.6% (2.5%)	242	0.1	0.0% (0.9%)	518	7.5	1.4% (2.3%)
Global	307	4.4	1.4% (2.4%)	292	5.1	1.8% (2.5%)	491	8.3	1.7% (2.8%)
Forwarding	553	8.4	1.5% (2.5%)	533	5.2	1.0% (1.8%)	1,009	15.8	1.6% (2.5%)
Domestic	333	8.9	2.7% (4.0%)	343	10.7	3.1% (4.4%)	707	26.0	3.7% (4.9%)
Global	114	1.3	1.2% (1.6%)	112	3.2	2.8% (3.3%)	220	7.1	3.2% (3.7%)
Automobile	447	10.3	2.3% (3.4%)	455	13.9	3.1% (4.1%)	927	33.0	3.6% (4.6%)
Other services	107	10.2	9.6% (9.6%)	107	10.0	9.3% (9.3%)	215	20.9	9.7% (9.7%)
Total	3,437	140.5	4.1%	3,524	148.5	4.2%	7,100	310.0	4.4%

*. Company-wide expenses is planned to partly change the method of allocation from FY2017. FY2017(Result) and FY2018(Plan) are reflected this alternation.

October 26, 2018

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