

The 3rd Quarter of FY2018 (Ended December 31, 2018) Financial Results Briefing

 **Hitachi Transport System, Ltd.**

I. 3Q of FY2018 Financial Results

Overview, Breakdown by Group, 3Q of FY2018 Detail of Variations for Revenues/Operating Income, Overseas Results by Region, Trend of New Orders/New Startups, Collaborative Innovation Project, Full-year Financial Forecasts

II. Topics

- **Acquisition of a Patent for “Image Recognition Inspection Device”**
- **3D Print Service in Collaboration with DMM.com and SAGAWA EXPRESS**
- **Expand Collaborative Innovation Areas**
- **Smart Warehouse for EC**

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

	FY2017		FY2018		
	3Q (9 months)		3Q (9 months)		
	Results	Results	Y o Y		
			%	Change	
Revenues	5,259	5,358	102%	99.8	
Operating income*	<4.2> 219.0	<4.5> 240.6	110%	21.6	
EBIT (Earnings before interest and taxes)	<4.8> 252.0	<5.1> 275.6	109%	23.5	
Net income attributable to stockholders of the parent company	<2.9> 154.7	<3.3> 174.4	113%	19.7	

* 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		
		3Q (9 months)	Y o Y	3Q (9 months)	Y o Y		
Organic	Domestic logistics	<59>	2,717	104%	148.6	104%	
	Global logistics	Overseas	<29>	1,357	100%	50.9	131%
		Allocated to domestic companies (forwarding and others)	<9>	396	99%	1.4	22%
	Total		<38>	1,753	100%	52.2	115%
	Others (logistics-related businesses, etc.)		<3>	155	94%	14.8	124%
Total		<100>	4,625	102%	215.6	108%	
Vantec Group	Domestic logistics	<67>	550	103%	26.3	112%	
	Global logistics	Overseas	<33>	275	98%	6.4	164%
		Allocated to domestic companies (forwarding and others)	<0>	0	-	0.0	-
	Total		<33>	275	97%	6.4	164%
Total		<100>	825	101%	32.7	120%	
Consolidated Adjustment/Amortization of customer-related intangible assets of VANTEC Group, etc.		-	-92	(-4)	-7.7	(+0.2)	
Total	Domestic logistics	<61>	3,245	104%	168.6	106%	
	Global logistics	Overseas	<30>	1,590	99%	55.8	135%
		Allocated to domestic companies (forwarding and others)	<7>	373	98%	1.4	22%
	Total		<37>	1,963	99%	57.2	120%
	Others (logistics-related businesses, etc.)		<3>	150	94%	14.8	124%
Total		<100>	5,358	102%	240.6	110%	

✓ Cost allocated to domestic companies (forwarding and others) increased 240 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 380 million yen under the previous method.)

3Q (9 months) of FY2018 Revenues (Result)

(100 million yen)

3Q (9 months) of FY2017
→ 3Q (9 months) of FY2018

- USD: ¥ 112 → ¥ 111
- EUR: ¥ 128.5 → ¥ 129.5
- CNY: ¥ 16.6 → ¥ 16.6

5,259

Effect of exchange fluctuation
-14

Environmental/volume changes/
continuous improvement,
etc.
-67

New orders
+124

Collaborative innovation
+57

5,358

+181

3Q of FY2018
Sales from collaborative innovation: 121

+100

	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		-15	25	10	65	52	127
Global	-14	-75	10	-65	59	3	-17
Other		-12		-12		2	-10
Total	-14	-102	35	-67	124	57	100

- Domestic/other: -27
- Global business: -75
- Expansion of operations: +35

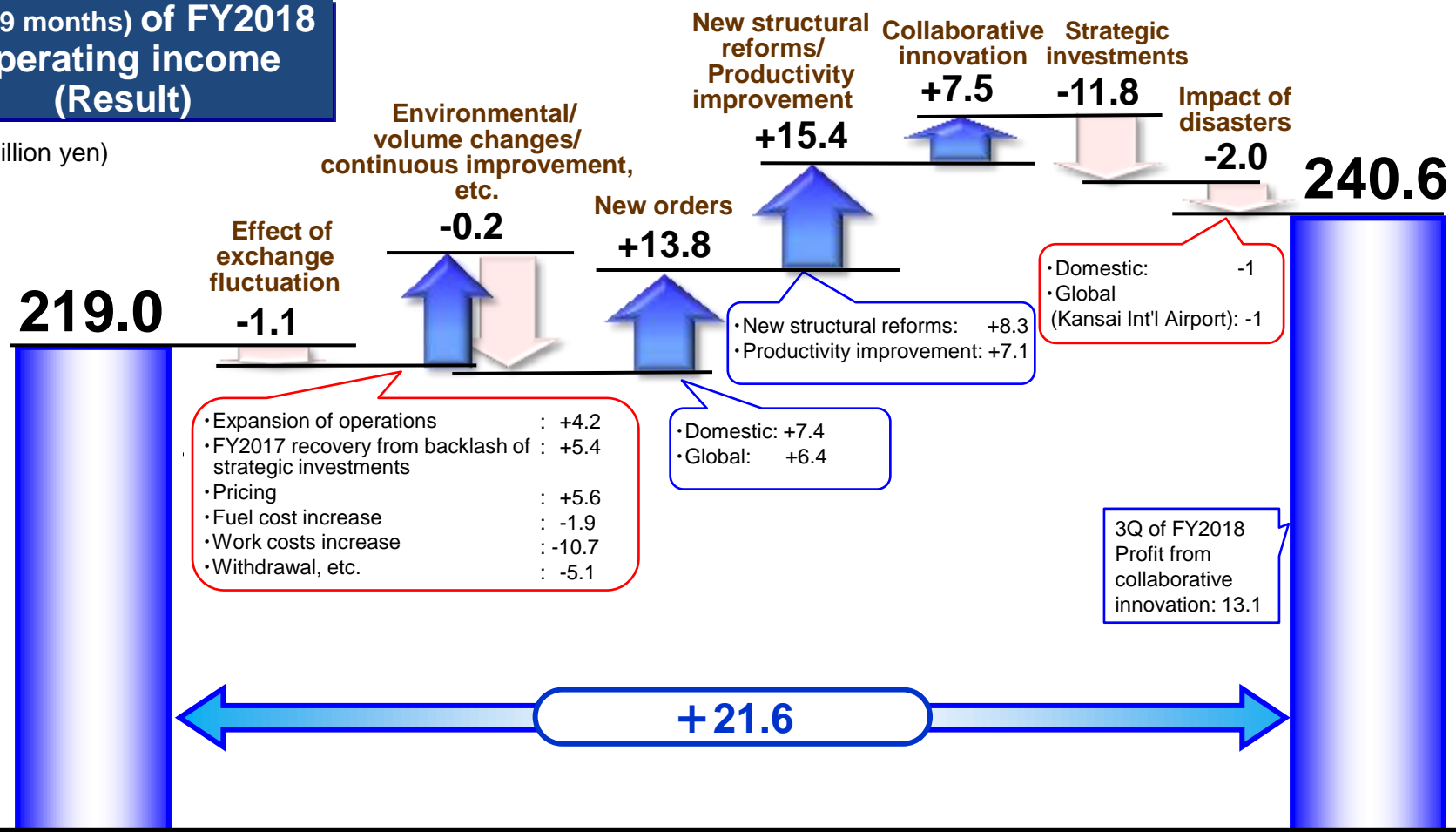
- Domestic: +65
- Global: +59

3Q (9 months) of FY2017 (Result)

3Q (9 months) of FY2018 (Result)

**3Q (9 months) of FY2018
Operating income
(Result)**

(100 million yen)



3Q (9 months) of FY2017 (Result)

3Q (9 months) of FY2018 (Result)

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

Item		FY2017		FY2018			
		3Q (9 months)		3Q (9 months)			
		Revenues	Operating income	Revenues	Y o Y	Operating income	Y o Y
Overseas	North America	324	2.1	343	106%	7.4	345%
	Europe* ¹	535	25.5	528	99%	27.7	108%
	Asia (excluding China)	311	10.7	340	110%	16.3	152%
	China	444	6.6	393	89%	9.3	141%
	Oceania and Others	28	2.3	29	102%	2.5	107%
	Elimination of intra-company transactions, etc.* ²	-42	-5.9	-43	-	-7.3	-
Total		1,600	(2.6%) 41.4	1,590	99%	(3.5%) 55.8	135%

*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."

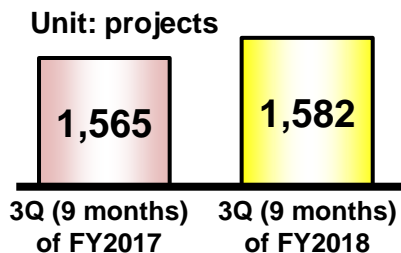
3Q (9 months) of FY2018: Trend of New Orders/New Startups (Unit: projects)

		FY2017	FY2018	
		3Q (9 months)	3Q (9 months)	Y o Y
New Orders	Domestic	20	9	-11
	Global	7	7	0
	Total	27	16	-11
New Startups	Domestic	6	15	9
	Global	6	8	2
	Total	12	23	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



3Q (9 months) of FY2017

3Q (9 months) of FY2018

- Orders under ¥10 million: **1,557** → **1,574**
(recurring: 217/one-time: 1,340) (recurring: 161/one-time: 1,413)
- Orders over ¥10 million : **8** → **8**
(recurring: 4/one-time: 4) (recurring: 3/one-time: 5)

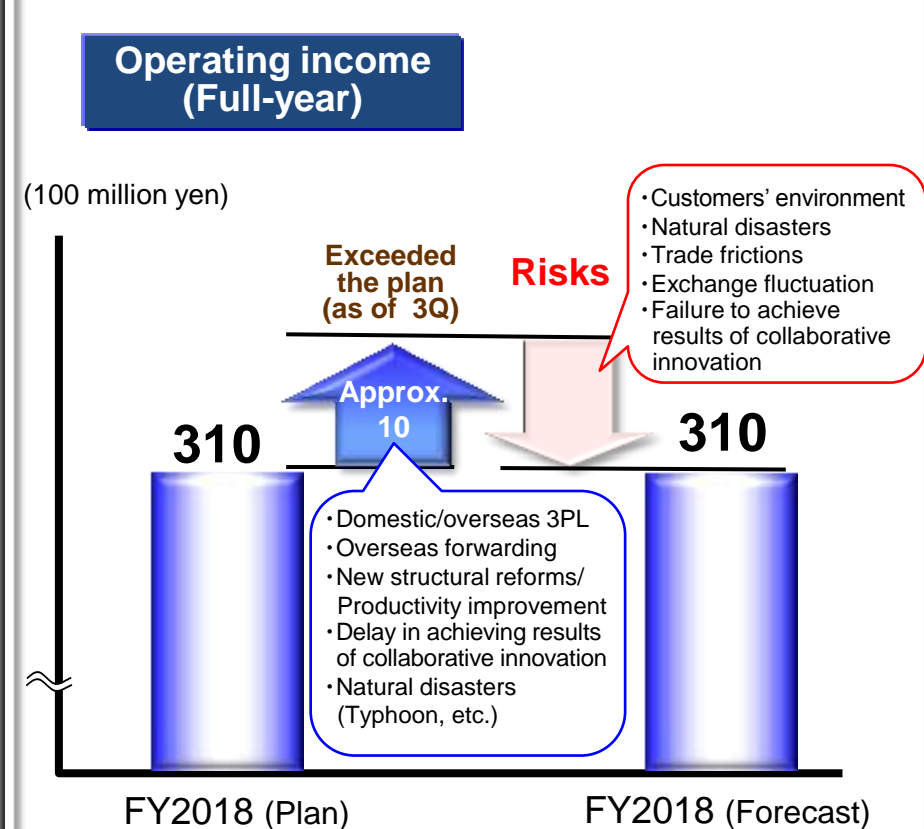
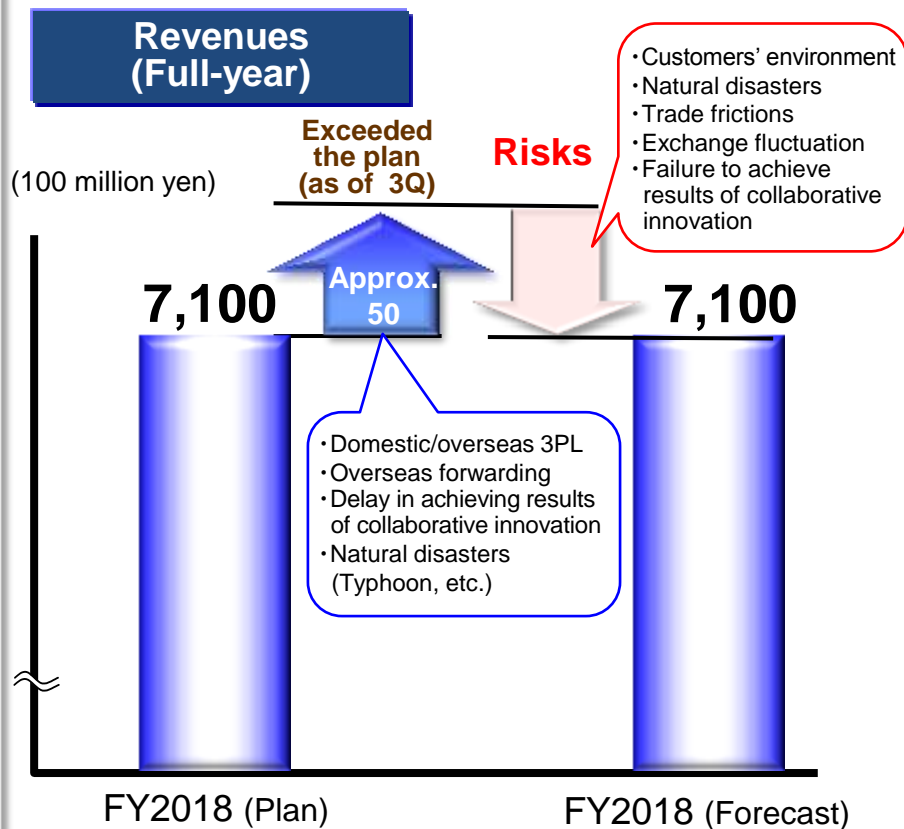
Promote collaborative innovation and collaboration to realize seamless comprehensive logistics service

(Unit: 100 million yen)

			FY2017				FY2018			
			3Q (9 months)		Full-year results		3Q (9 months)		Full-year plan	
			Revenues	Operating income	Revenues	Operating income	Revenues	Operating income	Revenues	Operating income
Domestic	3PL/Transportation	Cross-selling/optimization	57	4.9	101	9.7	108	11.1	-	-
	Others	Heavy Machinery and Plant Logistics, etc.	1	0.1	1	0.2	1	0.3	-	-
	Subtotal		58	5.0	103	9.9	110	11.3	186	18.4
Global	3PL/Transportation	Cross-selling/optimization	0	0.0	1	0.1	1	0.2	-	-
	Others	Heavy Machinery and Plant Logistics/ Forwarding, etc.	4	0.5	6	0.7	6	1.0	-	-
	Subtotal		4	0.5	7	0.8	7	1.3	11	1.2
Others	Others	Vehicles leasing/Travel business, etc.	2	0.1	2	0.1	4	0.5	-	-
	Subtotal		2	0.1	2	0.1	4	0.5	3	0.4
Collaborative Innovation Effect () : Operating margin	3PL/Transportation	Cross-selling/optimization	57	4.9	102	9.8	109	11.3	-	-
	Others	Heavy Machinery and Plant Logistics/ Forwarding, etc.	7	0.7	9	1.0	11	1.8	-	-
	Collaborative Innovation Effect		64	5.6 (8.8%)	111	10.8 (9.7%)	121	13.1 (10.8%)	200	20 (10.0%)

■ Progress rate of full-year plan: 60% 65%

Although both revenues and operating income for 3Q (nine months) of FY2018 slightly exceeded the plan, the full-year plan remains unchanged, considering risks including “customers’ environment, natural disasters, trade frictions, exchange fluctuation and failure to achieve results of collaborative innovation”



Acquisition of a patent for “Image recognition inspection device” which shortens read processing of bar code labels

[Patent registration date] September 7, 2018

[Description of patent] Jointly developed with Hitachi Distribution Software an inspection device using image processing which completes inspection only by imaging products (can also inspect multiple products at a time)



- **Achieve high-speed and accurate information processing**
Can isolate and read a bar code image from the entire image of the products subject to inspection with a high degree of accuracy

- **Enhance inspection efficiency**
Inspection results are displayed on the system monitor instantly

- **Customization**
Can customize to meet customers’ products and needs

3D print service in collaboration with DMM.com and SAGAWA EXPRESS

[Start of service] December 4, 2018

[Description] HTS: Produce goods using 3D printers installed in its distribution center
(shipment process: sorting/cleaning/finishing/packaging, etc.)

SAGAWA EXPRESS: Provide delivery service from production site

Overview

DMM.make 3D PRINT

(1) Need a prototype urgently and make an online order

Customer of 3D print service



(2) DMM selects the optimal modeling center, and sends order information and 3D data

(3) Receive information and data, and start modeling promptly

Modeling/delivery center

(4) Deliver to the customer



SAGAWA | Hitachi Transport System

✓ Achieve short-term delivery
Offer highly convenient service from production to delivery

[Future development]

- Utilize the business site network with SAGAWA EXPRESS to further shorten lead time
- Small-lot production in the optimal site

■ Hitachi Capital: Concluded a business alliance agreement (December 27, 2018)

Hitachi Capital Corporation

- Promote new innovations through “Finance, Commerce, Logistics, and Information” such as SSCV*1
- Transferred 40% of shares of Hitachi Auto Service Co., Ltd., HTS’ wholly owned subsidiary, to Hitachi Capital (February 1, 2019)

■ AIT: Toward share exchange (scheduled on March 1, 2019)



- December 21, 2018: Extraordinary general meeting of shareholders of AIT— Approved a share exchange agreement (Senior Vice President and Executive Officer of HTS and the president of Nisshin Transportation were appointed as directors of AIT (scheduled to take office on March 1, 2019))

■ Cooperation in verification experiment of the “Project for the Development of Infrastructures for Creating New Industrial Models Taking Advantage of IoT (Project for Enhanced Efficiency of Domestic Consumer-Goods Supply Chains)”

- Verification experiment started in February 2019 (Dai Nippon Printing was adopted as a successful applicant for the “Project for the Development of Infrastructures for Creating New Industrial Models Taking Advantage of IoT (Project for Enhanced Efficiency of Domestic Consumer-Goods Supply Chains)” sponsored by METI and NEDO*2 and HTS will cooperate as was the case last year)

*1. Smart & Safety Connected Vehicle

*2. New Energy and Industrial Technology Development Organization

Overview of EC platform center —Opened the first center in Kasukabe DC—

Name: Kasukabe DC



Within a 50-km radius of central Tokyo

Location	3, Minamisakae-cho, Kasukabe City, Saitama Prefecture
Access	Approx. 7 km from Iwatsuki IC of Tohokudo 8-minute walk from Yagisaki Station of Tobu Noda Line
Total floor space	Approx. 27,401 m ² (8,289 tsubo)
Structure/size	Steel-framed structure, four stories above ground
Completion	June 2009
Berth	Both sides on the first floor for 31 vehicles

■ Characteristics of the distribution center

- ✓ **Good location within range of Route 16**
→ Within walking distance from the station, good access for customers
- ✓ **An office with approx. 1,983m² (600 tsubo) is located within the center**
→ Can set up offices for customers and areas for shooting, measurement, and drafting work

- ✓ **Apply same operation for multiple owners**
- ✓ **Introduce simple “Pay per use” method**
- ✓ **Save labor by approx. 70% compared with the conventional models by introducing automation and on-demand technology**

Support expansion of customers' EC

* Annualized (Unit: 100 Million yen)

		FY2017	3Q (9 months) of FY2018	FY2018 (Forecast)
Total equity attributable to stockholders of the parent company (100 Million yen)	(100 Million yen)	36.2 2,043	36.2 2,168	36.6 2,321
Total equity per share attributable to stockholders of the parent company	(Yen)	1,831.72	1,943.59	2,080.33
Basic earnings per share attributable to stockholders of the parent company	(Yen)	187.50	156.30	192.74
Return on equity (ROE) (annual)	(%)	10.7	11.0*	9.6
Return on assets (ROA) (annual)	(%)	3.8	4.0*	3.6
Return on invested capital (ROIC) (annual)	(%)	5.8	5.9*	5.2
Price book-value ratio (PBR)	(Ratio)	1.63	1.61	-

Reference

Results by Business Category (estimated)

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

	3Q (9 months) of FY2017 (Result)			3Q (9 months) of FY2018 (Result)			Full-Year of FY2018 (Plan) (As of April 27, 2018)			
	Revenues	Operating income	Operating margin	Revenues	Operating income	Operating margin	Revenues	Operating income	Operating margin	
3PL	Domestic	2,611	131.0	5.0% (5.1%)	2,715	144.8	5.3% (5.4%)	3,637	180.6	5.0% (5.0%)
	Global	950	44.1	4.6% (5.0%)	974	45.7	4.7% (5.0%)	1,312	59.6	4.5% (4.9%)
3PL		3,561	175.1	4.9% (5.0%)	3,689	190.6	5.2% (5.3%)	4,949	240.2	4.9% (5.0%)
Forwarding	Domestic	385	6.7	1.7% (2.6%)	370	2.1	0.6% (1.5%)	518	7.5	1.4% (2.3%)
	Global	476	6.2	1.3% (2.2%)	448	7.2	1.6% (2.3%)	491	8.3	1.7% (2.8%)
Forwarding		861	12.8	1.5% (2.4%)	819	9.3	1.1% (1.9%)	1,009	15.8	1.6% (2.5%)
Automobile	Domestic	505	14.6	2.9% (4.2%)	526	18.2	3.5% (4.7%)	707	26.0	3.7% (4.9%)
	Global	176	1.7	1.0% (1.4%)	167	4.4	2.7% (3.1%)	220	7.1	3.2% (3.7%)
Automobile		681	16.3	2.4% (3.5%)	693	22.6	3.3% (4.3%)	927	33.0	3.6% (4.6%)
Other services		156	14.7	9.5% (9.5%)	158	18.1	11.5% (11.5%)	215	20.9	9.7% (9.7%)
Total		5,259	219.0	4.2%	5,358	240.6	4.5%	7,100	310.0	4.4%

* The allocation method for company-wide expenses was partly changed. Results and plans presented above reflects this alternation.

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