Held on April 28, 2021
Hitachi Transport System, Ltd.

Summary of Financial Results Briefing (Online) for the Fiscal Year Ended March 31, 2021

1. Outline of the briefing

(1) Date: April 28, 2021 (Wed) 4:00 PM to 5:00 PM for Analysts / Institutional investors
5:15 PM to 6:00 PM for Media

(2) Attendees: Yasuo Nakatani, Representative Executive Officer, President and Chief Executive Officer
Takashi Jinguji, Representative Executive Officer, Executive Vice President and Executive Officer
Seiki Sato, Senior Vice President and Executive Officer
Nobukazu Hayashi, Senior Vice President and Executive Officer

(3) Subject: Summary of financial results for the Fiscal Year Ended March 31, 2021, Supplementary Materials, Q&A

2. Main Q&A (Summary)

(1) About FY2020 financial results

Q1. Sales decreased but profits increased. Which business contributed to the increase in profits?

A1. As shown in Results by Business Category on page 33 of the presentation material, overall revenues decreased mainly due to a significant drop in Automobile revenues. 3PL secured profit although revenues decreased slightly. Forwarding, especially in overseas, posted an increase in both revenues and profit, largely contributing to the growth of overall profit.

Q2. Regarding the COVID-19 impacts in FY2020, which sectors or customers were affected? Also, which sectors or customers are expected to recover in FY2021?

A2. In FY2020, the automobile-related sector suffered serious damage and outdoor recreation-related customers such as apparel and shoes were also affected. A sharp decline in inbound demand caused a drop in volume of cosmetics-related customers. From here on, the automobile-related sector is expected to recover, but severe conditions for the outdoor recreation-related sector appear to be prolonged. While the cosmetics-related sector is expected to face severe conditions in Japan, export is expected to bounce back as demand is picking up overseas mainly due to vaccination rollouts.

Q3. Given that COVID-19 affected supply chains of many cargo owners, is outsourcing demand increasing in 3PL, or are customers shifting to in-house operation?

A3. A trend of manufacturing customers is becoming highly polarized. While some customers are outsourcing part of their production lines to 3PL in order to concentrate their resources in manufacturing, others who have excess workforce due to a drastic cutback in production volume have shifted to in-house operation.

(2) About FY2021 Plan

Q4. There is incorporated risk of ¥1 billion in “Detail of Variations for Operating Income” on page 14 of the presentation material. Does it include the absence of special demand in forwarding?

A4. The plan reflects declines in demand in forwarding and the COVID-19 impacts as well as certain risks such as resurgence of COVID-19.

Q5. Please explain the COVID-19 impacts on FY2020 results and FY2021 plan.

A5. In FY2020, the COVID-19 impacts were increased in revenues of ¥25.6 billion and in profit of ¥5 billion from FY2019. We expect that the impacts of FY2020 4Q level continues throughout FY2021 and therefore estimate the impacts in revenues of approx. ¥10 billion and in profit of approx. ¥2 billion.

Q6. I understand that operating income target of ¥38.5 billion on page 16 of the presentation material equals the initial target of FY2021 operating income of ¥36.0 billion in the Mid-term Management Plan if reflecting the impacts of adopting IFRS 16 "Leases." Is it correct to assume that the operating income target can be achieved without the risk of ¥1 billion included in the operating income forecast of ¥37.5 billion released this time?

A6. Yes, that's correct. We are working to achieve the initial target of the Mid-term Management Plan. But because of the continued uncertainty in the current business environment, we have no choice but to incorporate certain risks.

Q7. It appears that the number of new orders received is recovering from FY 2020 to FY2021, but new orders (revenues) for FY2021 on page 13 of the presentation material shows a decrease. Why?

A7. New orders have returned to the normal level, but some deals were postponed to FY2021 due to limited face-to-face sales activities in FY2020.

(3) About growth strategies (the use of treasury stock and cash)

Q8. Please tell us the progress of new partnership (using treasury stock) aimed at enhancing global business, etc.

A8. There is no change in our strategy to use treasury stock to build new partnerships, but we will first consider the use of cash including borrowing, in light of the current interest rate. Also, considering TSE's continued listing criteria for the Prime market, we recognize that we may need to cancel treasury stock to a certain extent.

Q9. Please tell us the detail of the plan for the cancellation of treasury stock, if there is any.

A9. We are still discussing the details including the quantity. The ratio of treasury stock is currently about 25%, and our current plan is to cancel up to half of them (ratio of approximately 10%) around 1Q of FY2021.

(4) About investment plans

Q10. On page 16 of the presentation material, it says "To become a leading 3PL company in Asia" toward the next Mid-term Management Plan. Do you have any specific plans?

A10. Our investment plans in Asia include "multipurpose logistics center in India," "chilled warehouse in Malaysia" and "enhancement of the existing warehouse in Indonesia," with about two-thirds of overseas investments (a total of ¥12 billion) to be invested in Asia. While the investment environment remains uncertain due to COVID-19, there is an increasing need for 3PL logistics centers in India and also for cold chain in Malaysia and Indonesia.

Q11. Please tell us about the investment plan in Japan after FY2021.

A11. As purchased assets in FY2020, East Japan II Medical DC in Saitama started operation and we expanded the existing logistics center in Ibaraki. Our plan for FY2021 includes purchase of a logistics center and construction of a new warehouse for hazardous goods in the Kansai region as well as renovation and reconstruction of large logistics centers across the country.

Additional Q. I think there was a plan to extend business such as EC platform center in Japan. Is there any change?

Additional A. There is no change in our plan to focus on EC related business. Although we need a logistics center dedicated for EC platform function, we think the combination of EC and 3PL warehouse will generate more effects. So, we are also planning to add some space for EC in the existing logistics centers.

Q12. Please explain overseas business investment and M&A plans described on page 21 of the presentation material.

A12. Purchased assets are for strengthening core domain of 3PL, and we consider M&A separately from investments described in the presentation material. We consider North America, Europe, and Asia as particularly important areas, so we think there will be some M&A projects in those areas in FY2021 and FY2022.

(5) Other

Q13. SG Holdings Co., Ltd. (“SGH”) sold a part of its shareholding in HTS on April 15. What is the relationship between the two companies like now?

A13. There hasn’t been any change in our relationship, and our top managements are still exchanging opinions and we are communicating with each other at the field level as well. SGH will continue to hold some HTS shares, and we will continue to work together to further enhance and extend our collaborative innovation activities.

Q14. Please tell us about specific initiatives with Maersk and expected effects.

A14. They will be mainly with Maersk Far East Regions. Maersk made a proposal to us for business expansion into logistics in Japan, which led to the construction of collaborative innovation areas with our 3PL (transportation/delivery and warehouse operation). In future, we will discuss personnel exchange and also whether combining “TRADELENS” which is a blockchain technology platform of Maersk with our “SCDOS” may be useful to build a digital platform. As Maersk has a global network, we are hoping to incorporate it in our network, especially in Asia. At this time, we expect its potential effect will be around ¥0.1 billion of revenues.

End