Hitachi Transport System, Ltd.

Summary of Financial Results Conference Call for the 3rd Quarter of FY2021

1. Outline of the conference call

(1) Date: January 31, 2022 (Mon)
3:30 PM to 4:15 PM for Analysts/Institutional investors
4:45 PM to 5:15 PM for Media

(2) Attendees:
Seiki Sato (Senior Vice President and Executive Officer, General Manager, Corporate Strategy Office)
Nobukazu Hayashi (Senior Vice President and Executive Officer, General Manager, Financial Strategy Office)

(3) Subject:
Summary of financial results for the 3rd Quarter of FY2021, Q&A

2. Main Q&A (Summary)

(1) About the financial results for the 3rd quarter ended December 31, 2021

Q1. Domestic Organic revenues for 3Q (three months) slightly decreased year-on-year. Could you explain why?

A1. While domestic Organic revenues in 3Q (three months) of FY2020 enjoyed stay-at-home demand, there was no such strong demand and also handling volume of winter clothing decreased this year. In addition, cosmetics-related volume decreased due to lack of inbound demand.

Q2. Did operating income for 3Q (three months) exceed the plan by ¥40 million? Please tell us about additional risks incorporated in 4Q.

A2. Operating income for 3Q exceeded the plan by ¥40 million. 3Q results were almost in line with the plan as negative impacts of automobile- and apparel-related demand were offset by profitability improvement in the freight forwarding business. Risks incorporated in 4Q include costs of transportation/delivery from alternative locations in Kanto area, etc. incurred in relation to the fire, semiconductor shortage and the far-reaching impacts of COVID-19.

Q3. What contributed to the better-than-expected results in global logistics?

A3. The biggest factor is continued high freight costs in the freight forwarding business due to cargo space shortages in air freight and port worker shortages and container shortages due to backlog of container vessels in North America in ocean freight.

Q4. Full-year operating income forecast was left unchanged at ¥37.5 billion. Could you tell us the impacts of semiconductor shortage and the far-reaching impacts of COVID-19 that have been realized so far, if any?

A4. In 3Q, we continued to suffer from sluggish growth in automobile production at VANTEC’s major customers and a decline in handling volume of winter clothing. Automobile production is expected to recover in 4Q, but shipping of certain automobile parts other than semiconductors is falling behind, which may have some impact on 4Q results.

Q5. Did net income attributable to stockholders of the parent company fall below the plan because of depreciation of Turkish lira, etc.?

A5. Net income fell below the plan because Mars in Turkey recognized exchange loss related to Turkish lira of approximately ¥2 billion and its tax expense increased approximately ¥1 billion. Majority of Mars' transactions are denominated in Euro but expenses are paid in Turkish lira. Accordingly, exchange gains arising from Euro-denominated assets and liabilities of Mars increased tax expense, and translation of the company's financial statements in Turkish lira to Euro resulted in exchange loss.

(2) Fire at a logistics center of our group company

Q6. EBIT, net income, etc. were not disclosed. Is it because of additional costs related to the fire?

A6. The building is covered by the insurance purchased by the landlord (lessor), but we are considering taking care of damages of customers' products, etc. stored in the facility with respective insurance based on the contract with each customer. Other potential costs include compensation to neighbors, but because we are dealing with them individually, it is difficult to make reasonable estimates, and therefore we did not disclose full-year forecasts of EBIT, net income, etc. However, the insurance should cover most of these costs, so it is not likely that a significant amount of loss will be incurred.

Q7. In which PL items will fire-related costs be recorded?

A7. Approximately ¥0.2 billion recorded in cost of sales in 3Q relates to transportation/delivery costs, etc. associated with the shipping mainly from Kanto to Western Japan, and they will continue to be incurred until alternative locations in Kansai area start operation. Although it should gradually decrease, we expect to record approximately ¥0.6 billion in 4Q considering approximately ¥0.2 billion recorded in December. In addition, costs arising from compensation to neighbors, etc. may be recorded in non-operating expenses (other expenses).

Q8. Loss by fire of approximately ¥0.12 billion was recorded in 3Q. Please tell us about the detail of insurance against the loss by fire.

A8. In 3Q, we recorded approximately ¥0.12 billion for loss on disposal of our own fixed assets and compensation, etc. to employees and neighbors. The building is covered by the insurance purchased by the landlord (lessor), but we are considering taking care of damages of customers' products, etc. stored in the facility with respective insurance based on the contract with each customer.

Q9. You said customers' products stored are covered by the insurance, but how about lost profits?

A9. Lost profits are not covered by the insurance and will be dealt with based on the contract with each customer.

Q10. Will the fire damaged Maishima Sales Office be rebuilt? Please tell us about the future plan.

A10. We believe it will be rebuilt, but it will be decided by the landlord (lessor) probably after all investigations are completed. Our top priority is "not to stop customers' logistics," so we are currently operating in several alternative locations. In the medium run, we plan to start operation at a location that will replace Maishima Sales Office from June 2022.

Q11. Do you have a plan to build another medical center concerning rebuilding of Maishima Sales Office?

A11. Regardless of whether Maishima Sales Office will be rebuild, we are planning to build a GDP (Good distribution practice) -compliant medical center as we recognize its necessity.

(3) Other

Q12. Please tell us about the future plan under the new management.

A12. We aim to achieve sustainable increase of corporate value with younger management members toward the new Mid-term Management Plan which starts from FY2022. Since joining the Company, Mr. Takagi, currently the Chief Executive for China, had worked on sites with manufacturing- and distribution-related customers and in solution business and sales at 3PL headquarters, showing achievements in all domains of our business.

Q13. Will there be any policy change after Mr. Takagi becomes the new President?

A13. Our major themes in the Mid-term Management Plan are how to embody and realize our business concept "LOGISTEED." We are currently developing the next Mid-term Management Plan and will disclose it as soon as it becomes available.

Q14. Please tell us which domains do you plan to enhance in the growth strategy for domestic logistics.

A14. We believe we need to enhance functions of medical supplies-related logistics centers including handling of hazardous substances and compliance with GDP, enhancement of transportation capacity, and expansion and enhancement of logistic centers capable of temperature zone management.

Additional Q. How do you plan to enhance temperature zone management or transportation capacity?

Additional A. We will need to meet the customers' trends, but we are considering building new locations as well as enhancing functions of existing locations. We are also planning to focus on our services with high added value such as taking on part of the production lines of our manufacturing customers.

Q15. Please tell us about candidate locations for hazardous substances warehouses, if any.

A15. Although there are legal restrictions on site area, etc. for hazardous substances warehouses, we are planning to open more of these warehouses across Japan by effectively using part of our existing locations to meet the increasing demand for hazardous substances.

End