Held on February 3, 2021
Hitachi Transport System, Ltd.

Summary of Small-Scale Meeting (Online) on Financial Results for the 3rd Quarter of FY2020

1. Outline of the meeting

(1) Date: February 3, 2021 (Wed) 10:00 AM to 11:00 AM

(2) Attendees: Seiki Sato, Senior Vice President and Executive Officer
Nobukazu Hayashi, Senior Vice President and Executive Officer
Kiyoshi Nagao, Vice President and Executive Officer

(3) Subject: Q&A

2. Main Q&A (summary)

Q1. It appears that operating income exceeded the plan due to strong performance of overseas business mainly in China and North America. Is this a temporary effect?

A1. In the full-year forecast, we expect 4Q performance to remain unchanged from the previous year. We expect the current situation of the freight forwarding business will continue if a rise in freight cost and a shortage of marine containers continue. In addition, some subsidies, etc. from each country's governments which ended in December will cause a slight decrease in operating income.

Q2. Please explain the situation of domestic Organic.

A2. Overall, volume of daily necessities showed steady growth. On the other hand, due to the impact of COVID-19, cargo movements of sports-related and cosmetics, etc. remained sluggish. Although it's unlikely domestic Organic will show a sharp decline thanks to support from daily necessities, we expect the struggle will continue.

Q3. The number of orders received decreased this fiscal year due to the impact of COVID-19. Do you expect a decline in revenues next fiscal year?

A3. Orders received in 3Q were the same level as 3Q of the previous year. We are now developing a budget for the next fiscal year, assuming the number of orders will be basically the same level as the previous fiscal year and this fiscal year. Our sales activities using digital have increased communication with customers. Under the business concept "LOGISTEED," we will work to receive orders from domains beyond the conventional logistics next fiscal year. Based on what we will have developed until this fiscal year, we will start full-scale external sales next fiscal year. We believe the key driver is to propose services beyond the conventional logistics domain which will offer value-added services (VAS) to customers.

Additional Q. I'm concerned about a decrease in domestic orders received. Am I correct in assuming that HTS will secure an increase in revenues next fiscal year?

Additional A. We will secure the topline through the DX strategy and providing labor-saving technology.

Q4. Under the TSE's New Market Segments, I believe HTS needs to take measures such as increasing the ratio of tradable shares if HTS aims to shift to the Prime market. What are the possible measures?

A4. As we are considering enhancing global logistics business, we will prioritize building an ecosystem by reinforcing collaboration, and we will consider the measures to address TSE's New Market Segments in that process.

Q5. I believe you were going to talk about the use of treasury stock at the time of the announcement of the full-year financial results. Is there any change to that schedule?

A5. We are preparing to explain it in some form when we announce the full-year financial results.

Q6. Please explain the details of cost reduction in 3Q.

A6. As shown in Results by Business Category (page 14 of Presentation Material of financial results for 3Q of FY2020), domestic 3PL secured an increase in operating income despite a decrease in revenues as our measures to flexibly shift VANTEC's employees and vehicles contributed to cost reduction.

Additional Q. Does it mean that employees, etc. will return to the original workplace after cargo movements go back to normal? If so, what will be its impact on PL?

Additional A. We have shifted approximately 200 employees from VANTEC and 100 employees from VANTEC HTS FORWARDING to domestic Organic sites. We may consider returning them when cargo movements of automobile related and freight forwarding recover. However, we will determine based on thorough consideration to put the right people in the right place. As for the impact on PL, we believe it will be insignificant because although we expect an increase in cost of temporary staff and part-time employees, etc. we also expect revenues to recover.

Q7. Please explain why DX strategy was released in January, new initiatives and the view about investment costs and returns.

A7. We released the DX strategy in view of application for the DX certification scheme of the Ministry of Economy, Trade and Industry. The most fundamental of our DX strategy is to replace "Deep analog insights" of Domestic 3PL with digital and follow a cycle of machine learning using AI, etc. with an aim to create new businesses and the "Digital Twin World" consisting of analog and digital. For costs and returns, we spend approximately ¥2.5 billion every year for strategic investments, which we intend to continue as it is essential to build the next ecosystem. We expect investment effect for FY2020 to be approximately ¥1 billion from labor-saving initiatives, etc. but it may not be achieved due to a decline in volume caused by COVID-19.

Additional Q. When do you expect investments to produce returns exceeding costs? Please share rough schedule.

Additional A. Although we expected the return would exceed the cost in FY2021, new strategic investment projects keep coming up one after another. Accordingly, we believe we can expect returns in excess of costs during period of the next Mid-term Management Plan.

Q8. The automobile-related business is facing a risk of production cut due to a shortage of semiconductors. What is the current order status and future outlook?

A8. VANTEC's domestic volume in 3Q returned to the approximately 90% level, and overseas volume was in line with the plan. 4Q performance may fall below the plan due to the semiconductor shortage, but we believe the impact will be insignificant.

Additional Q. Should we assume a risk scenario for 1Q and 2Q of FY2021?

Additional A. As vehicle production tends to increase gradually, we expect to see a gradual recovery, rather than a rapid one, in 1Q of FY2021.

Q9. About HTS's DX strategy, what are the differentiating factors and who are the target customers, etc.?

A9. SSCV is one of the solutions to overcome a negative spiral such as accidents resulting from a shortage or aging of drivers. We have already installed it in our vehicles, which has contributed to reduction of accidents. The system to obtain drivers' vital data while driving is our unique feature. We will provide the service as "SSCV Land," an aggregate of solutions for the improvement of driving efficiency and vehicle maintenance, to further utilize big data. For SWH, we are conducting verification experiments using 5G with KDDI to find solutions for customers' safety and quality issues. We are also working to provide sharing/pay-per-use services such as ECPF and develop applications, etc. to accelerate the development of competent workers. For SCDOS, we are working with customers to visualize, analyze, and simulate supply chains to provide an environment to follow the PDCA cycle. We are also considering collaboration with other companies providing similar services that allows to complement each other. We will complete our initiatives to build a robust internal DX platform next fiscal year as it is essential to achieve these external DX.

Additional Q. I think SSCV is useful for cargo owners as well. Are there any hurdles for installation?

Additional A. Our targets are land transportation companies and bus or taxi companies, not cargo owners, and our services have already been introduced by some bus companies and local governments, etc. In addition to preventing accidents by obtaining vital data, it is used for unexpected needs such as for urban development by capturing images from IoT dashboard camera.

Q10. Please tell us about HTS's strengths in terms of ESG initiatives.

A10. For E (environment), HTS recently received "A-" in the CDP Climate Change Report, receiving recognition as a Japanese land transportation company (HTS was the only one). We will continue our efforts for G (governance) and contribute to SDGs, etc. through SSCV for S (society), with an aim to work equally on each ESG initiative.

Q11. Is there any change to the plan or policy for capital expenditures and shareholder returns?

A11. There is no change in capital expenditure plan. Investments in our own assets will be around ¥25 billion, a little higher than ever. For shareholder returns, we plan to increase year-end dividend to ¥26 per share as a consequence of the acquisition of treasury stock as announced in 2Q, and there is no change to our shareholder return policy to maintain stable dividend (dividend increase).

Q12. The cost reduction effects were ¥3.5 billion for the nine months and ¥0.8 billion in 3Q only. Are they due to decreases in overtime pay and travel expenses? 4Q is forecast to produce a similar level of effect as 3Q, but could these expenses be negative factors to reduce operating income if the volume recovers next fiscal year?

A12. As the cost reduction effects come mainly from controllable costs, we expect expenses to increase after COVID-19 contains. However, because the business environment has also changed including the spread of online communication, we don't think all of these expenses will become negative factors to reduce operating income.

Additional Q. Approximately ¥4 billion of cost reduction effects is expected this fiscal year. Do you expect such effect will be halved next fiscal year?

Additional A. We expect about 50 to 60% of such effects will be recorded as expenses again.

Q13. Possible measures to strengthen overseas business include M&As, but there are few successful cases by Japanese companies. Please tell us about the effects and ecosystem that the initiatives you are currently planning are expected to create.

A13. We have overseas subsidiaries, and local companies in four key management areas which we acquired through M&As constitute primary source of our earnings. We continue to acquire competitive companies in various areas through M&As in the future.

Q14. Please explain the differences in profitability between Kasukabe ECPF and other platform businesses and the future potential for expansion.

A14. Kasukabe ECPF is gradually increasing the number of customers, with more than 30 companies currently in operation and a few more new project orders to be received. While the number of orders has been increasing, because many customers are start-ups, the operation has not reached the scale that we initially planned. Various labor-saving equipment has been installed, and we are prepared to secure profitability commensurate with the scale. Going forward, we will use Kasukabe ECPF as a base and make necessary arrangements to develop in other areas.

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