Held on August 3, 2020
Hitachi Transport System, Ltd.

# Summary of Small-Scale Meeting (Online) on Financial Results for the 1st Quarter of FY2020

## 1. Outline of the meeting

(1) Date: August 3, 2020 (Mon) 1st session 10:00 AM to 11:00 AM
2nd session 1:00 PM to 2:00 PM

(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: Explanation of FY2020 plan (by group) and labor-saving technology, Q&A

## 2. Main Q&A (summary)

**1st session: 10:00 AM to 11:00 PM**

**Q1. The full-year plan shows that operating income "incorporates business risks." Exactly what sort of risks are incorporated?**

A1. Demand from domestic distribution-related customers was strong in 1Q but started to go back to normal since June, so the strong demand may not continue after 2Q or 3Q. Business confidence in Japan remains weak and some consumers have stocked up goods. There is also a possibility that overseas demand will not recover, so we incorporated all these factors in our plan.

**Q2. What is the progress of the collaborative innovation with SG Holdings? It seems it will slow down in the FY2020 plan.**

A2. In 1Q, although we had few opportunities to directly talk to customers, we received some orders and there are various projects in progress. Overall, the weak economy impacted us, and orders of large-scale 3PL projects appear to be in a drop-off period. Also, it's probably because customers are reluctant to proceed with operational reform amid uncertainty about the full-year forecast.

**Additional Q. Am I correct in assuming that the direction of collaborative innovation has not changed?**

Additional A. The basic direction has not changed. But we were not able to start overseas expansion in 1Q, which has been one of our challenges.

**Q3. Please tell us about the return on strategic investments.**

A3. We expect nearly all planned investments will be completed in FY2021, the final year of the Mid-term Management Plan. We estimate the investment effect in FY2020 to be around ¥1 billion. We expect the effect will double in FY2021, which should give us sufficient return matching the investments.

**Q4. What do you think about the creation of synergies in R&D with Hitachi, Ltd.?**

A4. We make investments in R&D in cooperation with the research division of Hitachi, Ltd. in a wide range of areas including material handling, SSCV, and SWH. We also started working on a new digital-related project using 5G. So, we believe one of the synergies is that we have been able to conduct R&D while we also implement it in the actual operation at the same time.

**Q5. When do you expect to see the effect of the investment in labor saving technology and how much?**

A5. The advantage of introducing labor saving technology in the existing sites is that we can see the effect immediately by replacing human working at regular operation lines with robots. It is not an upfront investment as it produces effects as soon as robots are put into operation. So, it's important to do it with a sense of speed. While some investments were postponed due to the novel coronavirus, we believe the pandemic has changed our way of thinking and will accelerate the implementation of labor-saving technology and development of non-contact operation.

**Q6. 1Q reported steady results, but is there any temporary factor or something that is expected to bring about an effect next year? Also, cargo movements seem to vary depending on customers, and how do you expect it to affect the performance of this year and next year?**

A6. Weak cargo movements in industries such as automobile and machinery are made up for by strong demand of the distribution-related customers. This is mainly thanks to our well-diversified customer base which covers various industries. Moreover, because we made the best possible preparations for the worst-case scenario, we were able to shift human resources flexibly. Previously, shifting employees to different sites or areas was difficult but became possible partly due to the impact of the novel coronavirus. Since we were able to reduce outsourcing costs, we believe it will lead to a further growth in the next year once the volume recovers.

**Q7. Please give us the details of the effect of implementing the portfolio strategy.**

A7. The effect includes the exclusion of the travel business transferred and the inclusion of PALENET and the distribution service business of Hitachi Life acquired last year, as well as projects downscaled or withdrawn based on our decision.

**Q8. Please tell us the plan of capital expenditures and depreciation for this fiscal year.**

A8. We estimate depreciation to be the same level as last year. Following the adoption of IFRS 16 "Leases," we increased investments in our own assets. This year, because we are constructing our own logistics centers including East Japan II Medical DC, depreciation expenses are likely to be higher than lease expenses, but it will not have a material impact as we pay close attention to revenues and expenses. The investment plan is expected to be more than ¥25 billion as we plan to increase investments in our own assets by ¥10 billion from last year.

**Q9. About VANTEC HTS FORWARDING, please explain the status of shifting the increased air freight costs to customers, including future outlook.**

A9. Before shifting the increased air freight costs to customers, volume has decreased mainly in export and securing transportation space is also becoming difficult. However, as the volume is starting to recover gradually, we hope to secure procurement and properly collect fees, but we also plan to secure earnings by reducing costs through shifting human resources.

**Q10. The distribution sector in HTS Organic showed strong performance. Please show us the composition ratio of industries with strong demand.**

A10. Sectors such as distribution, foods, and daily commodities showed steady cargo movement due to stay-at-home demand. Distribution, foods, daily commodities, and medical supplies account for approximately half of the total.

**Q11. Operating margin in domestic Organic was very high at 7%. How long do you expect it to continue?**

A11. In 1Q, there were several special factors including improved efficiency due to sharing of human resources and an increase in storage fee due to increased inventory, so we don't expect such high level of operating margin to continue. The level of inventory is gradually going back to normal, so we incorporated certain business risks for the full year.

**Q12. Please tell us about the impact of the novel coronavirus on the Mid-term Management Plan and the future plan.**

A12. We don't think there was any impact on the basic strategy, but we feel there are risks to be recognized as the Company. Currently, our customer portfolio is well balanced, but if concentration to certain industries occurs in the future, it will pose a risk that we cannot respond to changes properly. As shifting human resources based on supply and demand is important, we strive to improve working environment and enhance employee satisfaction to prevent employees from leaving. As a regional strategy, we need to further accelerate the plan of "automobile-related customers plus one," especially in North America. The environment to easily participate in the sharing economy with our industry peers is ready, and we take it as a new business opportunity.

**Q13. Why did revenues and operating income decrease but EBIT and net income increase in 1Q?**

A13. "Other income" includes gain on sale of an old warehouse of VANTEC. Exchange loss was recorded last year, but exchange gain is recorded this year, resulting in positive EBIT. Full-year forecasts are expected to remain at last year's level as costs associated with standardization of the retirement benefit plan of group companies are included.

## 2nd session: 1:00 PM to 2:00 PM

**Q1. I think you had a BCP to prepare for a novel influenza, etc. Please tell us what was useful or the issues were in dealing with the novel coronavirus, including business opportunities.**

A1. For example, we were able to deal with a shortage of mask thanks to BCP measures (e.g. stockpile of various supplies) against infectious diseases and disasters. Also, there was a concern over a labor shortage mainly in the distribution sector due to the novel coronavirus, but we managed to flexibly shift employees within the Group to avoid suspension of logistics operation, which we believe was one of the achievements. We have been introducing labor-saving technologies for a while to address a labor shortage, but from now on, we will actively introduce such technology not only in the new logistics centers but also in existing logistic centers to promote non-contact operation.

**Q2. As for the changes in operating income in 1Q, what are the details of cost reduction of ¥1.5 billion and productivity improvement of ¥0.6 billion?**

A2. Cost reduction consists of the reduction of travel expenses and overtime pay due to reduced operation caused by the novel coronavirus. Productivity improvement is a sum of improvement effects at sites associated with projects with issues such as low productivity or profitability.

**Q3. You explained that cargo movements in June and July were not so bad. Was there any special factor?**
A3. China recovered relatively quickly and there were several special factors including special flights, but we expect that cargo movements will steady down after July. Daily commodities-related volume also increased in Japan due to stay-at-home demand, but we expect it to go back to normal after 2Q. However, if daily commodities-related demand remains strong, the volume may increase more than expected.

**Q4. I understand an increase in operating income of domestic 3PL by business category was mainly due to cost reduction. Please give us the detail.**
A4. We were able to reduce outsourcing cost as handling volume declined. We were not able to reduce labor cost to a level matching the decreased revenues as labor cost consists mostly of fixed cost, but we are trying to reduce temporary employees by shifting about 250 employees from VANTEC and 100 from VANTEC HTS FORWARDING to HTS Organic. Another factor is the reclassification to non-operating expenses of fixed cost associated with our facilities which suspended operation because of customers' closing stores due to lockdown.

**Q5. Please give us the update on labor saving and cost reduction through introduction of new technologies.**
A5. We made annual strategic investment of approximately ¥2.5 billion for labor saving, etc., and we expect to see the effect matching the annual investment in FY2021. We expect the effect of around ¥1 billion this year.
**Additional Q．Did the number of employees actually decrease as a result of labor saving initiatives?**
Additional A．EC platform center achieved labor saving of about 70% and other centers achieved a 20% to 30% saving. We will work on labor saving by introducing necessary equipment in the existing logistics centers in collaboration with partners such as Mujin.

**Q6. Has there been any change in the needs of 3PL customers in recent years?**
A6. While customers understand a surge in transportation and labor costs, their requests are also becoming more sophisticated. The scope of our services for manufacturing customers has expanded to the outsourcing of the entire logistics strategy covering supply of raw materials and parts to their production lines in addition to the conventional logistics services. We are seeing growth potential in our services for manufacturing customers, which is the origin of the Company.

**Q7. Is the effect of strategic investment going to get bigger after FY2021?**
A7. As strategic investment projects will be nearly completed next year, we expect the effect to get bigger than the current level.

**Q8. As for the full-year plan, when do you assume the novel coronavirus to be contained? Was the plan developed with a bottom-up approach?**
A8. As forecasting future results is very difficult, we developed the plan with a top-down approach by collecting various information. We assume that the impact of the novel coronavirus on the automobile-related business will continue throughout this fiscal year, but other sectors will go back to normal in 3Q and 4Q.

End