

## **Summary of Financial Results Briefings (via Phone/Teams) for the 2nd Quarter of FY2020**

### **1. Outline of the Briefing**

- (1) Date: October 28, 2020 (Wed) 3:30 PM to 4:10 PM for Media  
5:00 PM to 5:50 PM for Analysts/Institutional investors
- (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 2nd Quarter of FY2020, Q&A

### **2. Main Q&A (summary)**

#### **Q1. What is the progress status of operating income in the first half toward the plan?**

A1. Both Organic and VANTEC slightly exceeded the plan in 2Q. VANTEC recorded loss in 1Q but returned to the black in 2Q. The recovery of overseas operation contributed to the Organic results.

#### **Q2. If operating income in the first half exceeded the plan as you mentioned, please tell us which items in page 8 of the presentation material exceeded the plan.**

A2. Productivity improvement and cost reduction exceeded the plan. Although cost reduction was not a major component in the initial plan, it turned out that reduction of labor costs including temporary employees and outsourcing contributed to the results. Specifically, we were able to reduce costs by shifting VANTEC employees to Organic's distribution sites and internalizing operations. Productivity improved as a result of VC21 activities, etc.

#### **Q3. Operating income by group in 1Q and 2Q shows improvement in overseas Organic and VANTEC and a decrease in domestic Organic. Please tell us why. Also, please give us the outlook in light of a resurgence of COVID-19 in Europe and North America.**

A3. Domestic Organic's operating income in 2Q decreased 10% year-on-year but is in line with the plan. There was a large LCM project (Win 10-related special demand) last year, and its absence resulted decrease in year-on-year. We expect operating income in 3Q and 4Q will be in line with the plan. Europe and North America have not yet shown major impact of the resurgence of COVID-19, but there are concerns over the future impact. Full-year forecast for operating income of ¥31.5 billion takes into account such risks.

#### **Q4. What are the current status of the COVID-19 impact and future outlook in overseas areas?**

A4. In North America, Automobile business was affected by the lockdown in 1Q but is recovering as it resumed full-scale production in 2Q. In Europe, MARS, strong in intermodal business, is also on a recovery trend as border restrictions were eased. In Asia, Freight forwarding business is still facing a tough situation, but 3PL business is recovering. China showed recovery early, and rise in freight cost in Freight forwarding business is successfully collected from customers. As it is difficult to make a forecast for the future impact of the resurgence of COVID-19 mainly in Europe and North America, we incorporated certain risks in the full-year forecasts.

#### **Q5. About the structural reform in China, what sort of effect has been seen so far?**

A5. The structural reform in China consisted of withdrawal from or review of unprofitable routes in Freight forwarding business, etc. Revenues decreased but profit improved. An increase in handling volume of certain customers also contributed to the improvement.

**Q6. Has the impact of COVID-19 increased the customers' interest in labor saving?**

A6. The impact of COVID-19 brought about an increase in the number of EC-related inquiries for existing and new projects as well as new inquiries for ECPF. On the other hand, there were also some requests from customers whose business was severely affected by COVID-19 to lower fees, etc. So, we expect they will offset each other, and our results in 3Q and 4Q will remain flat from the current level.

**Q7. Please tell us why SG Holdings Co., Ltd. ("SGH") still owns some of HTS shares. Are we to understand that the collaborative innovation framework with SGH has not changed?**

A7. There is no change in the collaborative innovation framework with SGH. We will continue to promote collaborative innovation initiatives in our business including overseas. We believe it's meaningful in creating collaborative innovation effects if SGH owns some of our shares.

**Q8. Full-year forecasts have not been revised. Please explain the forecast for each income item (including the forecast for effective tax rate).**

A8. Adjusted operating income is unchanged for now because it depends on the future business environment, but it may exceed the forecast considering the results for the first half. As for EBIT and the rest of the income items, gain on sale of shares of SAGAWA EXPRESS CO., LTD. ("SAGAWA") was recorded in 2Q, but share of profit of SAGAWA accounted for using the equity method will no longer be recorded from the second half, and accordingly we estimated the impact on the full-year results to be small. There will be some impact on net income as gain on sale of SAGAWA shares is taxable, increasing the effective tax rate.

**Q9. It appears the full-year financial forecasts are developed conservatively. Is there a possibility of its upward revision?**

A9. I wish I could say yes, but because it is really difficult to predict what will happen, we incorporated certain risks in the full-year forecasts. While situations continue to be unpredictable mainly in overseas due to such factors as lockdowns in Europe, we hope to achieve the operating income target of ¥31.5 million at minimum.

**Q10. Please explain in detail about the use of treasury stock for collaborative innovation with new partners in page 12 of the presentation material.**

A10. Collaborative innovation with new partners includes various forms of collaboration with not only logistics companies but also developers and material handling manufacturers for the purpose of enhancing overseas business including Freight forwarding or increasing the size of next-generation logistics center (smart warehouse) we are promoting.

**Q11. What is the picture of collaboration with new partners in terms of speed and scale?**

A11. We haven't decided when or scale, but we don't deny the possibility of collaboration with large-scale partners. Overseas businesses focus on enhancement of local business. Tie-up with large-scale partners require a complementary relationship, and we are eying collaboration with companies from different industries as well as industry peers. As for the timing, we hope to complete by the end of FY2021 as it will be the final year of the Mid-term Management Plan. I hope to be able to talk about more details when we announce the financial results for FY2020.

**Q12. Assuming treasury stock is used, a dividend payout ratio of 20% will be a dividend cut. Since there was never a dividend cut before, do you intend to increase profit to increase dividend?**

A12. Our dividend policy is to "maintain stable dividend (dividend increase)" and "focus on payout ratio of over 20%" and it will not change even after we use treasury stock.

End