

## **Summary of Financial Results Conference Call for the 3rd Quarter of FY2020**

### **1. Outline of the conference call**

- (1) Date: January 29, 2021 (Fri) 4:00 PM to 4:30 PM for Media  
5:15 PM to 5:45 PM for institutional investors/analysts
- (2) Attendees: Seiki Sato, Senior Vice President and Executive Officer  
Nobukazu Hayashi, Senior Vice President and Executive Officer
- (3) Subject: Summary of financial results for the 3rd Quarter of FY2020, Q&A

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

**Q1. You said operating income in China increased significantly due to strong performance of the freight forwarding business. Please give us the details.**

A1. FY2019 was a tough year for the freight forwarding business in China due to the trade friction and a temporary impact on cost such as allowance for doubtful accounts. However, there are no such negative factors this year. Also, the effective use of the transportation space we had secured was one of the contributing factors.

**Q2. Domestic logistics in VANTEC posted an increase in operating income in 3Q. Although it may be partly due to the effect of cost reduction, please tell us about the volume trend.**

A2. In 3Q, the volume has recovered to the approximately 90% level. The measure to shift employees and vehicles has been contributing to earnings, and we believe that we will also need to take measures in response to the volume recovery.

**Q3. Please tell us about the recent business environment, including outlook for and changes in demand and orders received.**

A3. Although the situation remains uncertain due to the prolonged COVID-19 pandemic, overseas operations are doing well this fiscal year, supported by special demand in overseas freight forwarding business and subsidies. On the other hand, demand in Japan remains sluggish mainly in sports apparel and cosmetics.

If the effect of COVID-19 continues to linger, overseas operations may get into the similar situation as Japan.

**Additional Q. Does it mean that there is a concern that the business environment may become severe, and there hasn't been any change after the state of emergency was issued in January?**

Additional A. Yes, there is a concern, and we haven't experienced any rapid change so far.

**Q4. Why was operating income forecast revised upwardly while revenues were revised downwardly in the full-year forecast? Also, please explain why an expected increase in net income attributable to stockholders of the parent company is only ¥0.5 billion while you expect an increase of ¥2.5 billion in the revised operating income forecast.**

A4. We forecast a decrease in revenues and an increase in operating income as we reviewed routes and staff allocation of the global logistics business while the freight forwarding business in China struggled last year. Currently, revenues have decreased as freight volume has not recovered, but our customers understand the steep rise in freight costs due to shortage of transportation space. In Japan, while revenues declined slightly, we are working to reduce outsourcing costs by flexibly shifting employees and vehicles of VANTEC and VANTEC HTS FORWARDING. An increase in net income attributable to stockholders of the parent company will be smaller than that in operating income due to taxes on capital gains from sale of shares of SAGAWA EXPRESS, etc.

**Q5. Operating income is expected to decrease slightly in 4Q. Should we expect a decline in air freight forwarding?**

A5. Although the impact of COVID-19 on earnings is gradually decreasing by 3Q, we still incorporated risks of over ¥1 billion for 4Q. It is possible that the operating income may exceed the previous year's result.

**Q6. I understand it is difficult to secure space for ocean transportation now. What do you think will happen this year and how do you deal with it?**

A6. It is taking time to resolve the shortage of space for ocean transportation. It depends on how much of a recovery can be seen during the Lunar New Year, and we don't have optimistic outlook for the improvement of the supply-demand balance.

**Q7. What is the status of the cross-industrial service collaboration?**

A7. We are considering collaboration with various companies. For example, we are now conducting verification experiments of 5G with KDDI. We are using 5G to visualize and improve actual productivity and traffic lines in order to secure safety and quality in logistics centers and improve productivity.

**Q8. Please tell us if there has been any development in the use of treasury stock.**

A8. We are talking with various partners. I'm afraid we cannot give you details at this point, but we plan to collaborate with various partners and build an ecosystem toward the next growth. We appreciate it if you could wait until we can talk about it.

**Q9. Under the TSE's New Market Segments, HTS does not satisfy the criteria for the ratio of tradable shares for the Prime market. Which market do you have in mind? And what do you need to do?**

A9. We understand we do not satisfy the criteria, but there may be cases where treasury stock to be used for partners does not fall under tradable share as we work to build an ecosystem through collaboration with various partners. As placing a particular focus on the criteria for the ratio of tradable shares may interfere with our initiatives to build an ecosystem, we will first prioritize collaboration with partners. During the course of pursuing the collaboration, we may take measures such as retiring part of our treasury stock.

**Q10. What is the operating income forecast for the next fiscal year?**

A10. The impact of COVID-19 on the forecast for the next fiscal year is uncertain, but because we have target operating income of ¥36 billion set forth in the Mid-term Management Plan, we plan to prepare the budget with an increase in operating income.

**Q11. Can we expect an increase in operating income next fiscal year assuming there will be less impact of COVID-19?**

A11. We estimated the impact of COVID-19 on operating income to be ¥5.6 billion for the nine months ended December 31, 2020 and also included certain risks for 4Q. We will probably see a decline in volume due to COVID-19 next fiscal year as well, but we believe the impact will be smaller.

**Q12. Do you have any concrete investment plans in overseas and freight forwarding operations for next fiscal year?**

A12. There is a potential new order for automobile-related project in North America, for which we plan to offer warehouse operation and Milkrun.

Also, there is a plan to build a warehouse for 3PL in India.

**Additional Q. Is the warehouse in North America a lease? Is the warehouse in India scheduled to be completed next year?**

Additional A. In the warehouse in North America, we plan to offer warehouse operation at the customer's site and supply parts at the warehouse leased nearby. And at the final phase of our three-phase plan, we will build our own warehouse to supply parts, and this investment plan also includes material handling. The warehouse in India is scheduled to be completed next year.

**Q13. Is there any specific initiatives in the DX strategy?**

A13. We made investments mainly in SSCV, SCDOS, and SWH. First, we will establish a robust internal digital business platform and then create external DX-driven tools to develop our services. As a 3PL market leader, we have a wide variety of analog insights, which we will replace with digital. We will develop a "Digital Twin," which will become more sophisticated as AI learns more information, to make it our new key driver in the future.

**Q14. Is the number of customers for SCDOS increasing?**

A14. Some of our existing customers are already using them as tools to recognize problems or solve issues. We will expand our business domains with our existing customers through simulations and analysis.

**Q15. Is there any plan to build new SWHs (ECPFs) in the future?**

A15. We plan to build SWHs (ECPFs) across the country based on the insights obtained in Kasukabe ECPF.