

Summary of Financial Results Conference Call for the 1st Quarter of FY2020

1. Outline of the conference call

- (1) Date: July 30, 2020 (Thu) 3:00 PM to 3:50 PM for Media
5:00PM to 5:40 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 1st Quarter of FY2020/Explanation of full-year plan, Q&A

2. Main Q&A (summary)

Q1. The year-on-year domestic organic profit growth of 16% seems much higher than assumption. Is there any special reason?

A1. In some domestic sites, handled volume related to foods, daily commodities, and medical supply customers has increased. Also, our productivity improvement activities, mainly VC21, have spread into various entities of the Group from land transportation companies to the head office. We believe these efforts contributed to an increase in profit.

Q2. Cost reduction effects of ¥1.5 billion accounts for a large portion of changes in operating income. Please give us the details of the effects. Full-year plan does not mention any cost reduction, but how much reduction do you expect?

A2. In 1Q, there were factors of approximately ¥3 billion which led to a profit decline, including the impact of the novel coronavirus, but the impact of such factors were reduced as we were able to reduce controllable expenses including overtime pay and travel expenses. For the full year, we assume the effect of controllable expense reduction will not largely increase as economic activities start recovering. On the other hand, we expect that the effect of reducing temporary employees will continue as a result of shifting human resources from VANTEC and VANTEC HTS FORWARDING to HTS Organic.

Q3. Fixed costs of approximately ¥1.3 billion associated with suspended operation is recorded in “Other expenses.” Would actual operating income net of such costs be around ¥5.7 billion?

A3. While we recorded fixed costs of approximately ¥1.3 billion associated with suspended operation due to close of customers’ stores, we also recorded subsidy of approximately ¥0.5 billion in “Other income.” Accordingly, actual operating income would be ¥7 billion less approximately ¥0.8 billion.

Q4. How is the collaborative innovation with SG Holdings? Is there any impact of the novel coronavirus?

A4. While we have accumulated collaborative innovation effects steadily, because our meetings, etc. were restricted in Japan and overseas due to the novel coronavirus, some projects were postponed to the next year or suspended.

Q5. Please explain why and how VANTEC will become profitable in 2Q and onward.

A5. We expect VANTEC will restore profitability in 2Q, but our plan is based on a conservative estimation. HTS Organic sites accepted around 250 employees from VANTEC, which is expected to continue contributing to cost reduction in 2Q and onward. VANTEC HTS FORWARDING will also shift approximately 100 employees to HTS Organic.

Q6. What does it mean specifically to transform VANTEC to a core transport company that supports 3PL?

A6. The VANTEC Group is engaged in the transportation business and owns many vehicles mainly large-size vehicles. We plan to shift from the conventional, old-fashioned transportation by making VANTEC a core transport company and establishing an environment for visualization and digitalization of operations including the management of all vehicles such as those of Organic's land transportation companies and our partner companies.

Q7. Do you plan to continue strategic investments in the future?

Please tell us the progress of smart warehouse, SSCV, and SCDOS.

A7. We plan to make strategic investments at the current pace. SSCV-Safety is nearly completed, and we are now at the process of the final selection of vital data collection devices. Both SSCV-Smart and SSCV-Vehicle are currently underway and scheduled to be completed by the end of 2021. Smart warehouse has started operation as an EC platform center. We are also conducting verification experiments of advanced logistics using 5G with KDDI, which is scheduled to start operation this time next year. As for SCDOS, the system is ready and we are now working on the enhancement of its applications, with some companies already introducing it in their operation.

Q8. What are the impacts of the novel coronavirus on full-year revenues and operating income?

A8. We expect the impact of the novel coronavirus would be a decrease of ¥25 billion in revenues and a decrease of ¥5 to ¥6 billion in operating income for the full year.

Q9. It appears that the estimated decrease in full-year revenues is smaller than the decrease of 1Q and somewhat optimistic. Please explain why.

A9. Economies in Europe and the U.S. are gradually recovering and customers of VANTEC are starting to resume their operation gradually. On the other hand, certain domestic sectors' businesses which were busy during 1Q are expected to go back to normal. Based on these factors, we have developed a conservative plan. Also, because performance in 4Q of FY2019 was already affected by the novel coronavirus, FY2020 forecasts are reasonable when compared to FY2019 on a full-year basis.

End