COMPANY RESEARCH AND ANALYSIS REPORT

Konoike Transport Co., Ltd.

9025

Tokyo Stock Exchange First Section

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Index

Summary

A major comprehensive logistics company whose strength is its "Integrated Solutions Business" that includes logistics at customer sites

Konoike Transport Co., Ltd. <9025> (hereafter, also "the Company") is a historic company founded in 1880 and although "transport" is in its name, its main operations are not merely logistics, but rather an "Integrated Solutions Business" in which it is contracted to undertake various kinds of work at the plants and premises of its customers. With business relations of more than 50 years with its main customers, it has earned their deep trust, which is one of its features and strengths.

1.Maintained increase in profits in FY3/17 3Q while recording special expenses

In the FY3/17 3Q results, net sales were ¥195,478mn (up 2.5% year-on-year (YoY)), operating income was ¥8,759mn (up 3.3%), ordinary income was ¥9,052mn (up 4.6%), and profit attributable to owners of parent was ¥6,050mn (up 4.1%). In the International Logistics Business, profits decreased YoY due to factors including the recording of research expenses for the future in Q3, and the overall rate of increase in profits fell significantly. However, these factors were expected at the start of the period and are not a major cause for concern.

2. For the FY3/17 full year, the initial forecasts have been left unchanged and the target for operating income remains ¥11,000mn

The forecasts for the FY3/17 full year results are net sales of ¥266,000mn (up 5.3% YoY), operating income of ¥11,000mn (up 7.2%), ordinary income of ¥11,100mn (up 3.6%), and profit attributable to owners of parent of ¥6,800mn (up 6.1%). As described above, the rate of increase in profits in 3Q (cumulative) slowed, but at the current point in time there has been no change to the forecasts.

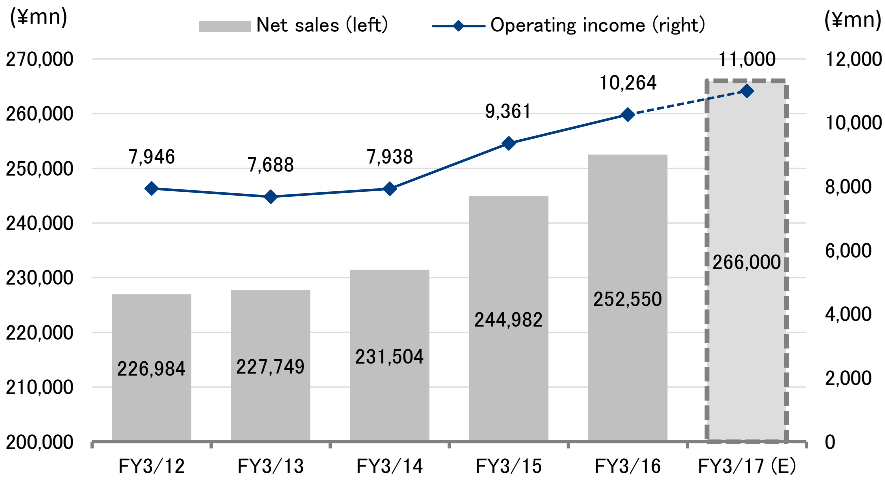
3. Only slight progress has been made in achieving the targets set for the medium-term management plan 1st stage, but it is progressing constitutional improvements

The targets for the medium-term management plan 1st stage are net sales of ¥300,000mn and operating income of ¥15,000mn in FY3/18, but based on the current situation, the Company has made only slight progress toward achieving these numerical targets. But on the other hand, it is currently progressing improvements to its corporate structure, and we will be paying attention to developments in the future.

Key Points

- Has a long history as a transport company and its strengths include its clients in its Integrated Solutions Business
- No changes to the initial forecasts for the FY3/17 full year, and the forecast operating income increase rate remains at 7.2%
- Aiming to acquire an evaluation as a service provider in the medium-to-long term

Consolidated results trends



Source: Prepared by FISCO from the Company's financial results

Company profile

A major logistics company with a long history, with more than 3,500 customers, 180 domestic bases, and 39 overseas bases

1. Company profile

Konoike Transport Co., Ltd. is a historic company founded in 1880 and although "transport" is in its name, its main operations are not merely logistics, but rather an "Integrated Solutions Business" (details to follow) in which it is contracted to undertake various kinds of work at the plants and premises of its customers. With business relations of over 50 years with its main customers, it has earned their deep trust, which is one of its features and strengths.

It currently has approximately 3,500 customers in Japan and overseas, but the top 20 customer companies account for around 40% of its net sales. As of November 1, 2016, it had 56 affiliated companies (of which, 39 were consolidated subsidiaries), 180 domestic bases (156 belonging to the Company and 24 to Group companies), 39 overseas bases, and approximately 22,000 employees on a consolidated basis.

2. History

The Company was founded a long time ago, in 1880. At that time, it was started as a transport business in Denpo (currently Konohana Ward), Osaka, by Mr. Chujiro Konoike. In 1900, it commenced “in-factory contract operations” for Nippon Casting (currently, Nippon Steel & Sumitomo Metal <5401>), in which it undertook cargo handling and transportation work. Then in 1945, Konoike Transport Co., Ltd., was established as a corporation, and in 1951, it started “in-factory contract operations” in the food field, and in 1953 it received an order from a major beverage company for in-factory contract operations. These “in-factory contract operations” were the origins of the current “Integrated Solutions Business,” and even today, the same steel and food manufacturers remain some of the Company’s major customers.

It subsequently gradually expanded the scope of the services it provided and its businesses, to warehousing operations in 1962, maritime cargo transport business in 1963, air cargo transport business in 1979, temperature-control (hereafter, “temp-cntl-related”) logistics services in 1985, airport-related business in 1991, and medical-related business in 1994. Moreover, in 1984 it established a subsidiary in Singapore as its first overseas base, and subsequently accelerated the pace of its overseas development. In March 2013, in the 134th year since its foundation, the Company was listed on the 1st Section of the Tokyo Stock Exchange (TSE).

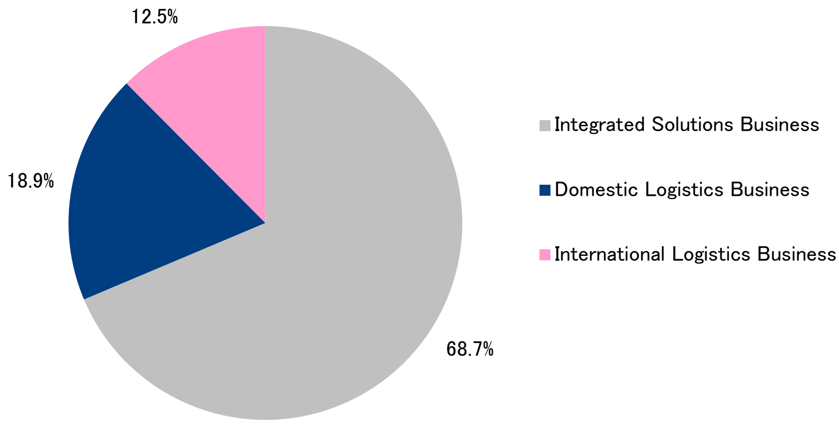
Business overview

The main business is the “Integrated Solutions Business,” which is primarily logistics on the premises of its customers. Its strength is its “bundling” of services.

1. Three main business segments

The Company has three business segments; “the Integrated Solutions Business,” “the Domestic Logistics Business,” and “the International Logistics Business.” In FY3/17 2Q, the Integrated Solutions Business provided 68.7% of total net sales, the Domestic Logistics Business 18.9%, and the International Logistics Business 12.5%.

Net sales by segment (% of total sales)
(FY3/17 2Q: ¥130,116mn)



Source: Prepared by FISCO from the Company's briefing materials

(1) The Integrated Solutions Business

When it was first founded, the Company conducted a transportation business, but at the same time it was engaged in a labor-supply business and its customer companies made various requests of it, and it responded to these requests in the form of expanding its "in-factory contract operations." This was the origin of the current Integrated Solutions Business, and even today this business is still the Company's main field and the most profitable.

Briefly stated, the Integrated Solutions Business involves "Uniting with customers and undertaking a series of operations in an integrated manner." Its scope extends to the production process, the distribution process, and other specialized processes. In the production process, specialist staff from the Company's Group companies are dispatched to a plant of the customer that they are responsible for, where they comprehensively undertake a range of operations, from accepting materials and raw materials through to each manufacturing stage, transportation operations within the plant, and product inspections.

For example, for a major customer of a steel manufacturer, the Company undertakes a wide range of operations, from receiving and transporting the raw materials (including iron ore and coke), various operations in the manufacturing process, the inspection and packaging of finished products (such as rolled products, hot-rolled products, and cold-rolled products), and moreover the storage and delivery of these products and the handling of cargo at ports. The Company has accumulated over 100 years of results and experience in conducting these outsourcing operations, which constitutes a formidable barrier to entry for other companies.

The Company also has a history (association) of more than 50 years at the plant of another large customer of a beverage company, and in addition to logistics operations inside and outside of the plant. It also undertakes a wide range of other operations, including receiving and preparing raw materials, packaging (bottling, canning, and cask filling), storage and picking, shipping, and delivery to stores. For its customer companies, outsourcing these sorts of operations to the Company has the advantage of enabling them to concentrate on the operations most important to them (such as product development, the core operations in the production process, and sales strategies).

(2) The Domestic Logistics Business

With the frozen and chilled storage warehouses and the dry (room temperature) warehouses that the Company owns serving as the bases, it provides integrated services–from storage through to distribution processing and delivery–for chilled foods, fresh foods, and general products that require temp-cntl-related management. Its customers are in a wide range of industries, from food manufacturers, supermarkets, and wholesale companies for convenience stores, through to manufacturers of various equipment and housing, and furthermore fashion- and apparel-related manufacturers.

As the Company handles a variety of products in this way, it is responsible for a diverse range of operations, including changing the number of products delivered, assortment (setting-up products), and attaching sales promotion labels, while at its dry warehouses, it can respond in detail to requests from customers for distribution-process operations for gift products, including mid-year and year-end gifts, and for apparel products.

(3) The International Logistics Business

Domestically and internationally, the Company conducts operations including sea and air cargo transportation and warehouse operations for import and export cargo. It provides transportation services covering a wide range of products, from fresh foods through to parts for precision machinery, and in this way, it supports its customers' overseas business development. Also, in response to the construction of plants overseas by its customers, the Company provides transportation and construction services for plants that utilize its own independent solutions.

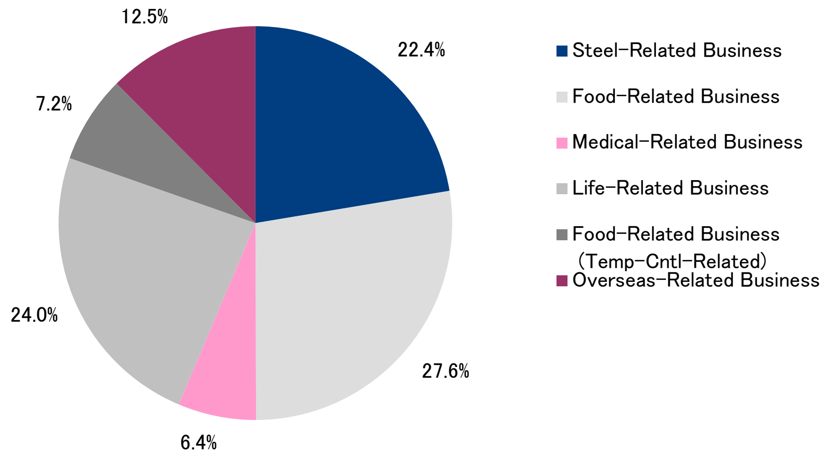
2. The six segments by field

In addition, and separate to the above-described business segments, the Company discloses information on six segments by field (by destination); the "Steel-Related Business," the "Food-Related Business," the "Medical-Related Business," the "Life-Related Business," the "Food-Related Business (Temp-Cntl-Related)," and the "Overseas-Related Business."

- Steel-Related Business: operations for the steel industry
- Food-Related Business: mainly operations for the food industry
- Medical-Related Business: medical operations relating to medical materials and pharmaceuticals, and logistics within hospitals
- Life-Related Business: Logistics related to life in general, and apparel-related and airport-related operations
- Food-Related Business (Temp-Cntl-Related): mainly logistics services, primarily from its frozen and chilled storage warehouses
- Overseas-Related Business: international logistics and port transport operations, air transport operations, engineering operations, temp-cntl-related logistics business in overseas subsidiaries, and consulting services

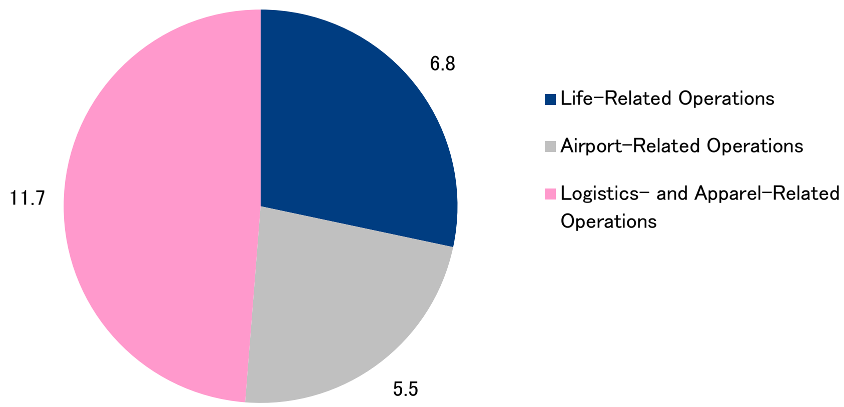
In FY3/17 2Q, in the percentages of total net sales provided by field-related segment, the Steel-Related Business provided 22.4%, the Food-Related Business 27.6%, the Medical-Related Business 6.4%, the Life-Related Business 24.0%, the Food-Related Business (Temp-Cntl-Related) 7.2%, and the Overseas-Related Business 12.5%. Moreover, in the Life-Related Business, this can be further subdivided by operations, with Life-Related Operations providing 6.8% (internal figure), Airport-Related Operations 5.5% (same), and Logistics and Apparel-Related Operations 11.7% (same).

Net sales by field (% of total sales)
(FY3/17 2Q: ¥130,116mn)



Source: Prepared by FISCO from the Company's results briefing materials

Breakdown of Life-Related Business
(FY3/17 2Q internal figures)



Note: percentages of Company-wide net sales (total is from the Life-related Business percentage of total sales, of 24.0%)
Source: Prepared by FISCO from the Company's results briefing materials

As described above, the Company's business can be classified into two sections (segments), with the Steel-Related Business ,the Food-related Business, and the Medical-related Business and parts of the Life-related Business, being included in the Integrated Solutions Business, and the remaining parts of the Life-Related Business and the Food-Related Business (Temp-Cntl-Related) being included in the Domestic Logistics Business.

3. Features and strengths

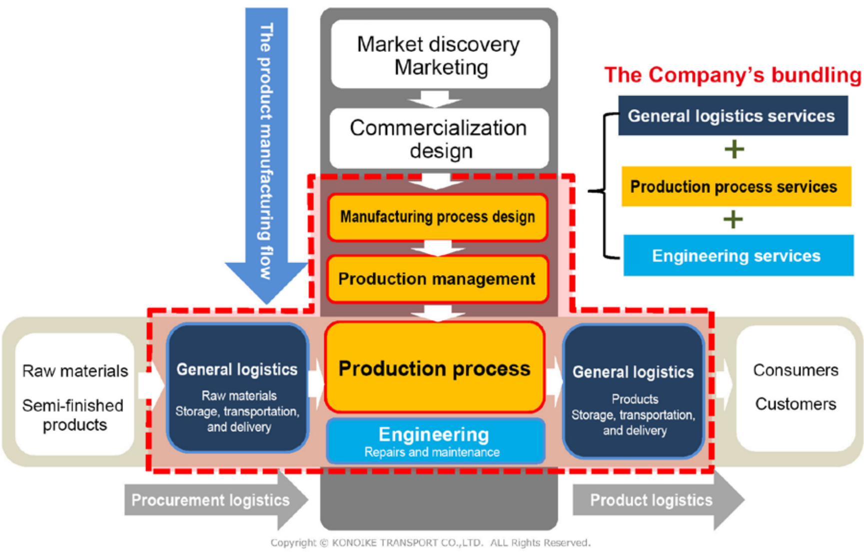
(1) The provision of "bundling": can provide integrated, one-stop solutions

One feature of the Company's transportation and logistics services is that it provides these services in an integrated manner in relation to "the production process." Specifically, compared to its industry peers, the Company does not merely transport and deliver products and raw materials from one place to another, it also provides its customers with "integrated solutions" by undertaking a variety of operations relating to "manufacturing and production" (including manufacturing process design, product control, and the production process).

Furthermore, the Company's greatest strength would seem to be that it can undertake in an integrated manner a variety of outsourcing operations at its customers' manufacturing plants and other premises. Seen from the customer's side also, when outsourcing these respective operations, rather than having to outsource them separately to different companies, it is more efficient if they can outsource them all to a single company that provides a one-stop service.

To summarize the Company's features (strengths) described above, it can undertake a variety of operations not only on the horizontal axis of "logistics" that runs from the delivery, storage and transportation of semi-finished products and raw materials through to the storage, transportation, and delivery of finished products, but also on the vertical axis of the manufacturing process, which includes manufacturing process design, production control, and the production process. Moreover, in recent years it has also been undertaking "engineering" in logistics, including repairs and maintenance operations within "automated warehouses." There are few other companies in the same industry that can provide integrated services to the same extent as the Company. In other words, the greatest feature and strength of the Company can be said to be that it provides "a bundle" of integrated services, from logistics through to the manufacturing process and engineering.

"Bundling" is a strength of the business model



Source: Prepared by FISCO from the Company's results briefing materials

(2) Long associations with customers (partner relations based on trust)

As described above, the Company has already maintained associations with its main customers, like the former Sumitomo Metal Industries, Ltd. and a major beverage company, for over 50 years. Maintaining business relations over the long term in this way is the result of customers feeling completely satisfied with the services provided by the Company, and it is a testimony to the trust that its customers place in it. Seen from the customers' side, outsourcing its peripheral operations to the Company allows them to concentrate on the business that is their core competence.

On the other hand, it is true that within the continuing long business relations, the Company's operations have expanded to their current scale because it has responded to requests from customers for new services. For the Company, expanding the scope of its operations while responding to customer requests makes it possible to accumulate experience and expertise and develop horizontally and vertically for new customers. In this way, the long business relations with its main customers and its deep relations of trust with them are not something that can be built overnight, and for the Company, they constitute its biggest asset and strength.

(3) Commitment to "safety and quality"

Safety and quality are important themes for any company, but particularly for the Company it has been positioned as the most important theme and it is implementing the following policies for it.

The Company has established the Safety and Quality Training Center to facilitate the participation of all the Group companies in safety- and quality-related training. The Center holds training in each region, such as learning from accident case studies, danger-prediction training, and lectures and practical training on using forklift equipment.

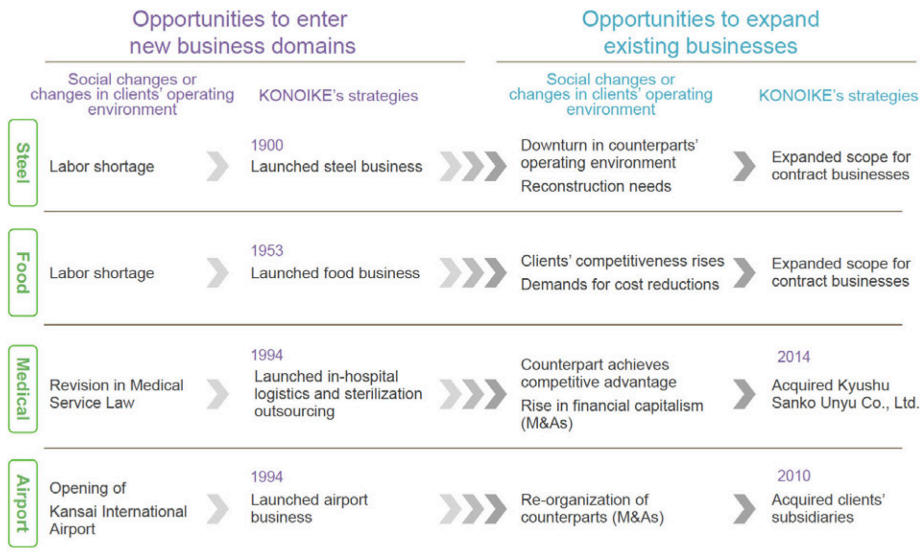
It has also established and is operating the Konoike Techno Training Center to obtain the trust of customers in the outsourcing operations in the production process. Here, with practical training as the foundation, the Center provides practical guidance toward the acquisition of various qualifications and practical training toward learning process management technologies on the production line. Furthermore, the Konoike Technology Research Institute conducts survey research into the next generation of technologies, and at the same time it is conducting research and development on themes that go beyond the boundaries of logistics, including on new logistics technologies, technologies to reduce the burden on workers, and refrigeration-related technologies, as well as developing products and services.

In such ways, the Company is actively conducting surveys, research, and development on "safety" and "quality" that are not directly related to earnings in the immediate future, which can be said to be helping to build the long relations of trust with customers described above. This is a feature and strength of the Company that is not clearly visible from the outside.

(4) A corporate structure to respond to changes

The Company has greatly changed its main operations over its long history. This is because it has responded in an agile and flexible manner to the changes it has experienced, including in the social environment, to economic conditions, in its customers' industry environments, and to the demands of its customers.

Examples of Past business opportunities



Source: From the Company's materials

The Company's ability to respond flexibly to changes in the economic environment and in the industry environments of its customers is one of its features and can be said to be one of its strengths.

(5) Its other strengths and features in each field

In the Food-Related Business (Temp-Cntl-Related), the Company has 15 bases (frozen and chilled storage warehouses) nationwide in locations close to the main consumption regions, and these are not merely "storage-type," but also "distribution-type" warehouses. This enables it to respond to the demands of major customers for the transportation of frozen and chilled storage food on a nationwide scale, which is impossible for small- and medium-sized operators.

For work that can be further automated, the Company is actively introducing automated warehouses that improve the efficiency not only of the work, but also of the workers. As a result, it can accept the cargo of an unspecified number of customers and divide their cargo and deliver it by region. This point is also a feature and a strength of the Company in the Food-Related Business (Temp-Cntl-Related).

A feature of the Company in the Overseas-Related Business is that it can provide multiple land, sea, and air services in an integrated manner. For example, in the case of a domestic buyer that purchases various products from overseas, normally the production plants will be scattered across various regions, so the international logistics will follow multiple routes. But if this buyer uses the Company's Group, the products from each plant can be consolidated at the Company's warehouses, from where they can be efficiently transported to its domestic warehouses through sea and land transportation after being containerized according to destination region within Japan.

The Company also has staff who are fully versed in both sea and air transportation, including on custom clearance for forwarding and the various tariff-exemption measures, and they can provide high quality and rapid responses to customer demands.

To further strengthen these services, in 1984 the Company established a subsidiary in Singapore, and since then it has been actively developing bases in the Asian region. It has particularly advanced ahead of its industry peers into the ASEAN region, which is expected to grow in the coming years, and it is developing and providing services in accordance with the "China plus one" strategies of its customer companies, which can be said to be another of the Company's features and strengths. It also opened its first base in Latin America in Mexico in April 2014. As described below, going forward developing international logistics will be one important strategy for the Company, and we shall be paying attention to how it develops its overseas bases in each region in the future.

4. Competition

There are many companies that offer the same services as provided by the Company in its "Integrated Solutions Business," such as in the fields of receiving and inspecting raw materials, on-site transportation, services in the manufacturing process, and the storage and shipment of products. However, there is no other company that conducts all these operations by itself in an integrated manner and on the same scale as the Company. On this point, it can be said that it does not have any competitors, but it can be regarded as competing with its own customers when they decide to conduct these operations in-house.

It has many competitors in the logistics industry in general. For example, the Company often competes with companies such as Hitachi Transport System, Ltd. <9086>, Sankyu Inc. <9065>, and SENKO Co., Ltd. <9069>. It also has many competitors in the temp-cntl-related logistics market that is growing significantly, including small- and -medium-sized companies. But as already explained, there are few companies that can respond to customer requests and provide temp-cntl-related logistics services on a nationwide scale, and the Company can be said to be the leader in this field.

Results trends

While the growth rate slowed in FY3/17 3Q, the increase in profits was maintained

1. Summary of the FY3/17 3Q results

In the FY3/17 3Q results, net sales were ¥195,478mn (up 2.5% YoY), operating income was ¥8,759mn (up 3.3%), ordinary income was ¥9,052mn (up 4.6%), and profit attributable to owners of parent was ¥6,050mn (up 4.1%), for higher sales and profits. However, the rate of increase of operating income slowed from the 1H results (up 9.8%), and taken by itself, the 3Q result can be said to be not that impressive. Both sales and profits increased in the Integrated Solutions Business, but they both decreased in the Domestic Logistics Business due to the sluggish domestic logistic operations. Further, in addition to the economic slump in China, the Company recorded expenses in investment for the future, and as a result sales and profits also declined in the International Logistics Business.

FY3/17 3Q results

(¥mn, %)

	FY3/16 3Q		FY3/17 3Q			
	Amount	% of total	Amount	% of total	YoY change	YoY change rate
Net sales	190,784	100.0	195,478	100.0	4,694	2.5
Gross profit	17,866	9.4	18,527	9.5	661	3.7
SG&A expenses	9,385	4.9	9,767	5.0	382	4.1
Operating income	8,481	4.4	8,759	4.5	277	3.3
Ordinary income	8,658	4.5	9,052	4.6	394	4.6
Profit attributable to owners of parent	5,814	3.0	6,050	3.1	236	4.1

Source: Prepared by FISCO from the Company's results briefing materials

(1) Summary by segment

Net sales were ¥133,667mn in the Integrated Solutions Business (up 4.8% YoY), ¥37,496mn in the Domestic Logistics Business (down 1.8%), and ¥24,314mn in the International Logistics Business (down 3.2%). Segment income was ¥11,042mn in the Integrated Solutions Business (up 8.1%), ¥1,511mn in the Domestic Logistics Business (down 10.9%), ¥711mn in the International Logistics Business (down 27.5%), and ¥27mn in Others (up 1.3%).

FY3/17 3Q trends by segment

(¥mn, %)

	FY3/16 3Q		FY3/17 3Q			
	Amount	% of total	Amount	% of total	YoY change	YoY change rate
Net sales	190,784	100.0	195,478	100.0	4,694	2.5
Integrated Solutions Business	127,484	66.8	133,667	68.4	6,182	4.8
Domestic Logistics Business	38,176	20.0	37,496	19.2	-680	-1.8
International Logistics Business	25,122	13.2	24,314	12.4	-808	-3.2
Others	-	-	-	-	-	-
Operating income	8,481	4.4	8,759	4.5	277	3.3
Integrated Solutions Business	10,217	-	11,042	-	824	8.1
Domestic Logistics Business	1,695	-	1,511	-	-184	-10.9
International Logistics Business	980	-	711	-	-269	-27.5
Others	27	-	27	-	0	1.3
(Adjustments)	-4,439	-	-4,533	-	-93	2.1

Source: Prepared by FISCO from the Company's results briefing materials
Note: "Others" is a business segment not included in the reporting segments. It includes the Group's asset management and other operations.

Sales and profits increased in the Integrated Solutions Business, including from the contribution of a newly consolidated subsidiary in the Steel-Related Business, and the strong performances of the Food-Related Business and Airport-Related Operations. Conversely, sales and profits decreased in the Domestic Logistics Business, because in addition to the slow-down in the movement of cargo by apparel customers, the start-up costs for the new Center were higher than forecast. Sales and profits also fell in the International Logistics Business due to the decline in the margin for forwarding and from the recording of special expenses on-location in preparation for business development in the future. In particular, a loss was recorded in the Q3 accounting period, but this is not considered a cause for concern as it included investment for the future.

(2) Overview by field

Looking at the situations in each of the fields, in the Steel-related Business, operations incidental to the production process on the sites of customers were basically unchanged YoY, but the new subsidiary acquired from an M&A contributed to results and net sales were ¥43,666mn (up 5.9% YoY). In the Food-Related Business also, movement of cargo for customers was strong and net sales were ¥53,091mn (up 4.1%). In the Medical-Related Business, net sales trended firmly, at ¥12,885mn (up 0.9%). While net sales in the Life-Related Business were ¥47,378mn (up 3.1%), there were variations between the operations in this business. Breaking it down, net sales for Life-Related and Airport-Related Operations were favorable, at ¥13,230mn (up 2.8%) and ¥10,794mn (up 12.5%) respectively. On the other hand, due to the slump in the movement of cargo by customers, net sales from Logistics- and Apparel-Related Operations were ¥23,354mn (down 0.6%).

In the Food-Related Business (Temp-Cntl-Related), due to factors including the withdrawal from unprofitable sectors, net sales were ¥14,142mn (down 3.7% YoY). In the Overseas-Related Business, in addition to the sluggishness in forwarding transportation operations, the sense of a slump was strengthened from the impact of the economic slowdown in China, and net sales were ¥24,314mn (down 3.2%).

Overview of FY3/17 3Q net sales by field

(¥mn, %)

	FY3/16 3Q		FY3/17 3Q			
	Amount	% of total	Amount	% of total	YoY change	YoY change rate
Net sales	190,784	100.0	195,478	100.0	4,694	2.5
Steel-Related Business	41,238	21.6	43,666	22.3	2,428	5.9
Food-Related Business	51,013	26.7	53,091	27.2	2,077	4.1
Medical-Related Business	12,767	6.7	12,885	6.6	117	0.9
Life-Related Business	45,952	24.1	47,378	24.2	1,425	3.1
Life-Related operations	12,872	6.7	13,230	6.8	357	2.8
Airport-Related operations	9,592	5.0	10,794	5.5	1,201	12.5
Logistics- and Apparel-Related Operations	23,487	12.3	23,354	11.9	-133	-0.6
Food-Related Business (Temp-Cntl-Related)	14,689	7.7	14,142	7.2	-547	-3.7
Overseas-Related Business	25,122	13.2	24,314	12.4	-808	-3.2

Source: Prepared by FISCO from the Company's results briefing materials

The financial condition is stable: the equity ratio became 44.7%

2. Financial condition

The financial condition in FY3/17 3Q was as follows. Current assets were ¥80,077mn (up ¥9,391mn on the end of the previous fiscal year), which was mainly due to increases in cash and deposits of ¥6,559mn and notes and accounts receivable-trade of ¥4,295mn. Non-current assets were ¥119,723mn (down ¥1,364mn), with the main factors being decreases in property, plant and equipment of ¥1,847mn and intangible assets of ¥472mn (mainly goodwill in consolidated subsidiaries). As a result, total assets were ¥199,800mn (up ¥8,026mn).

Current liabilities were ¥54,850mn (up ¥ 6,121mn), due to factors including that current portion of bonds decreased ¥3,000mn and current portion of long-term loans payable increased ¥1,994mn. Non-current liabilities were ¥53,130mn (down ¥1,318mn), primarily because net defined benefit liability decreased ¥138mn and long-term loans payable fell ¥2,255mn. Consequentially, total liabilities were ¥107,980mn (up ¥4,802mn). Total net assets were up ¥3,223mn on the end of the previous fiscal year to ¥91,819mn, mainly due to the increase in retained earnings from the recording of quarterly net income. As a result, at the end of FY3/17 3Q, the equity ratio became 44.7%.

Consolidated balance sheet

(¥mn)

	End of FY3/16	End of FY3/17 3Q	YoY change
Cash and deposits	20,307	26,866	6,559
Notes and accounts receivable-trade	43,510	47,806	4,296
Total current assets	70,685	80,077	9,391
Property, plant and equipment	99,320	97,473	-1,847
Intangible assets	3,599	3,127	-472
Investments and other assets	18,168	19,122	953
Total non-current assets	121,087	119,723	-1,364
Total assets	191,773	199,800	8,026
Notes and accounts payable-trade	14,592	14,075	-517
Short term loans payable	2,868	3,247	379
Current portion of bonds	4,000	1,000	-3,000
Current portion of long-term loans payable	4,691	6,686	1,994
Accrued expenses	9,468	6,368	-3,100
Total current liabilities	48,728	54,850	6,121
Bonds payable	16,000	16,000	-
Long-term loans payable	11,804	9,549	-2,255
Net defined benefit liability	17,646	17,508	-138
Total non-current liabilities	54,448	53,130	-1,318
Total liabilities	103,177	107,980	4,802
Total net assets	88,596	91,819	3,223

Source: Prepared by FISCO from the Company's results briefing materials

Business outlook

No changes to the initial forecasts for the FY3/17 full year and the forecast operating income increase rate remains 7.2%

1. FY3/17 results outlook

The forecasts for the FY3/17 full year results are net sales of ¥266,000mn (up 5.3% YoY), operating income of ¥11,000mn (up 7.2%), ordinary income of ¥11,100mn (up 3.6%), and profit attributable to owners of parent of ¥6,800mn (up 6.1%). As described above, the rate of increase in profits in 3Q (cumulative) slowed, but at the current point in time there has been no change to the forecasts.

FY3/17 results forecast

(¥mn, %)

	FY3/16		FY3/17 (forecast)			
	Amount	% of total	Amount	% of total	YoY change	YoY change rate
Net sales	252,550	100.0	266,000	100.0	13,450	5.3
Integrated Solutions Business	169,014	66.9	181,100	68.1	12,086	7.2
Domestic Logistics Business	50,250	19.9	51,700	19.4	1,450	2.9
International Logistics Business	33,285	13.2	33,000	12.4	-285	-0.9
Others	0	-	-	-	-	-
Operating income	10,264	4.1	11,000	4.1	736	7.2
Integrated Solutions Business	12,827	-	14,100	-	1,273	9.9
Domestic Logistics Business	2,089	-	2,000	-	-89	-4.3
International Logistics Business	1,301	-	1,300	-	-1	-0.1
Others	36	-	0	-	-36	-
(Adjustments)	-5,990	-	-6,400	-	-410	-
Ordinary income	10,714	4.2	11,100	4.2	386	3.6
Profit attributable to owners of parent	6,411	2.5	6,800	2.6	389	6.1

Source: Prepared by FISCO from the Company's results briefing materials

2. Outlook by segment and by field

Both sales and profits are forecast to increase in the Integrated Solutions Business from the contribution of the newly consolidated subsidiary and the opening of new bases, with net sales of ¥181,100mn (up 7.2% YoY) and segment income of ¥14,100mn (up 9.9%). In the Domestic Logistics Business, net sales are forecast to rise to ¥51,700mn (up 2.9%) from the increase in online sales-related, but due to the start-up costs for the new centers, segment income is expected to decrease to ¥2,000mn (down 4.3%). In the International Logistics Business, net sales are forecast to decline to ¥33,000mn (down 0.9%) because of the reduction in the volume of cargo handled due to the strong yen and the economic slowdown in China, but segment income is expected to remain basically unchanged at ¥1,300mn (down 0.1%) following the elimination of the problem at U.S. ports.

By field, in the Steel-Related Business, net sales are forecast to be ¥59,900mn (up 7.1% YoY) including from the full year contribution of ASR Recycling Kashima Co., Ltd., that has newly entered the scope of consolidation. In the Food-Related Business, net sales are expected to increase to ¥69,700mn (up 5.4%) including from the contributions of the opening of new centers in Gunma and Okayama and the expansion of bases. In the Medical-Related Business also, net sales are forecast to increase to ¥17,600mn (up 4.4%) from the acquisition of new customers in the hospitals business.

In the Life-Related Business, net sales are forecast to increase to ¥66,800mn (up 9.2%) from the growth in online sales-related logistics and Airport-Related Operations. Breaking this down, net sales in Life-Related Operations are expected to be ¥19,200mn (up 12.5%), in Airport-Related Operations ¥14,500mn (up 11.2%), and in logistics- and apparel-related operations ¥33,000mn (up 6.2%). In the Food-Related Business (Temp-Cntl-Related), net sales are forecast to fall to ¥18,600mn (down 3.0%) due to the withdrawal from unprofitable operations. In the Overseas-Related Business, they are set to decline to ¥33,000mn (down 0.9%).

FY3/17 net sales forecast by field

(¥mn, %)

	FY3/16		FY3/17 (forecast)			
	Amount	% of total	Amount	% of total	YoY change	YoY change rate
Net sales	252,550	100.0	266,000	100.0	13,450	5.3
Steel-Related Business	55,941	22.2	59,900	22.5	3,959	7.1
Food-Related Business	66,104	26.2	69,700	26.2	3,596	5.4
Medical-Related Business	16,856	6.7	17,600	6.6	744	4.4
Life-Related Business	61,183	24.2	66,800	25.1	5,617	9.2
Life-Related Operations	17,074	6.8	19,200	7.2	2,126	12.5
Airport-Related Operations	13,037	5.2	14,500	5.5	1,463	11.2
Logistics- and Apparel-Related Operations	31,071	12.3	33,000	12.4	1,929	6.2
Food-Related Business (Temp-Cntl-Related)	19,179	7.6	18,600	7.0	-579	-3.0
Overseas-Related Business	33,285	13.2	33,000	12.4	-285	-0.9

Source: Prepared by FISCO from the Company's results briefing materials

3. Forecasts for capital investment and depreciation

The total amount of capital investment in FY3/17 is forecast to be ¥13,500mn (up 17.1% YoY). Breaking this down, it is set to be ¥7,500mn (down ¥2,520mn) in the Integrated Solutions Business, ¥3,000mn (up ¥2,414mn) in the Domestic Logistics Business, and ¥2,300mn (up ¥1,805mn) in the International Logistics Business.

The main projects will include ¥1,110mn to expand the warehouse at the Kita Kanto Logistics Center, ¥1,317mn for conveyors and other equipment at the Nishi Osaka Distribution Center, and US$19.25mn for the construction of a new warehouse at KONOIKE-GENERAL, INC.

The total amount of depreciation expenses is forecast to be ¥8,400mn (up 14.6% YoY). Breaking this down, it is expected to be ¥5,300mn (up ¥645mn) in the Integrated Solutions Business, ¥1,600mn (up ¥95mn) in the Domestic Logistics Business, ¥800mn (up ¥89mn) in the International Logistics Business, and ¥500mn (up ¥48mn) for common items.

Medium- to long-term growth strategy

Aiming to achieve the targets in the medium-term management plan 1st stage, and advance improvements to the corporate structure

1. Has only made slight progress in achieving the targets in the medium-term management plan 1st stage

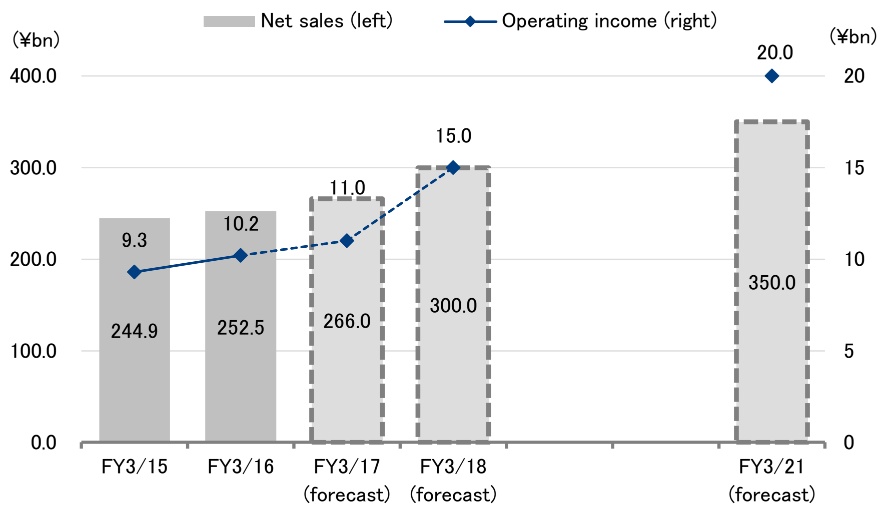
The Company has announced its medium-term management plan in which it sets the targets for FY3/21, which will be the140th year since it was founded, of net sales of ¥350bn and operating income of ¥20bn. As the 1st stage and with FY3/16 as the Plan's first year, it has set targets for FY3/18 of net sales of ¥300bn and operating income of ¥15bn.

Medium- to long-term quantitative targets

(¥bn)

Fiscal year	FY3/15, the Express Plan Vol. 2's final year	FY3/16, the medium-term management plan's first year	FY3/18 (targets)	FY3/21 (targets) (140th year since foundation)
Net sales	244.9	252.5	300.0	350.0
Operating income (margin)	9.3 (3.8%)	10.2 (4.1%)	15.0 (5.0%)	20.0 (5.7%)
ROE	6.9%	7.6%	8.7%	9.6%

Source: Prepared by FISCO from the Company's results briefing materials



Source: Prepared by FISCO from the Company's results briefing materials

In fact, based on the progress made toward achieving the FY3/17 forecast for operating income of ¥11bn, it is possible that the Company will soon have to reconsider the targets in the medium-term plan. However, it can be said that the important goal in the medium-term management plan is not necessarily only achieving the quantitative targets, but also that the Company changes qualitatively. To achieve such a qualitative goal, the Company is advancing the following strategies

2. The direction the Company is aiming for: attempting to acquire an evaluation as a service provider

As a long-term target, in the future the Company intends the percentage of all operations provided by "conventional logistics," such as transportation and warehouse management, to be approximately 50%, and "the provision of non-conventional services," including outsourcing, to be around 50%.
Currently, the Company's evaluation on the stock market (actual PBR) is 0.91 times (as of February 24, 2017), and this around the same level as PBR 0.8 times, which is the simple average of the warehouse and transportation industry within the TSE 33 industries (as of January 31, 2017, source: the Tokyo Stock Exchange). On the other hand, the PBR (same) of the service industry within the TSE 33 industries is 2.1 times. Therefore, in the future, it is considered that the Company can obtain an evaluation of a PBR of approximately 1.5 times, which is the average of the PBRs of the warehouse and transportation industry and the service industry, by maintaining a ratio of operations of 50% from "conventional logistics" and 50% from "non-conventional logistics (outsourcing services)."

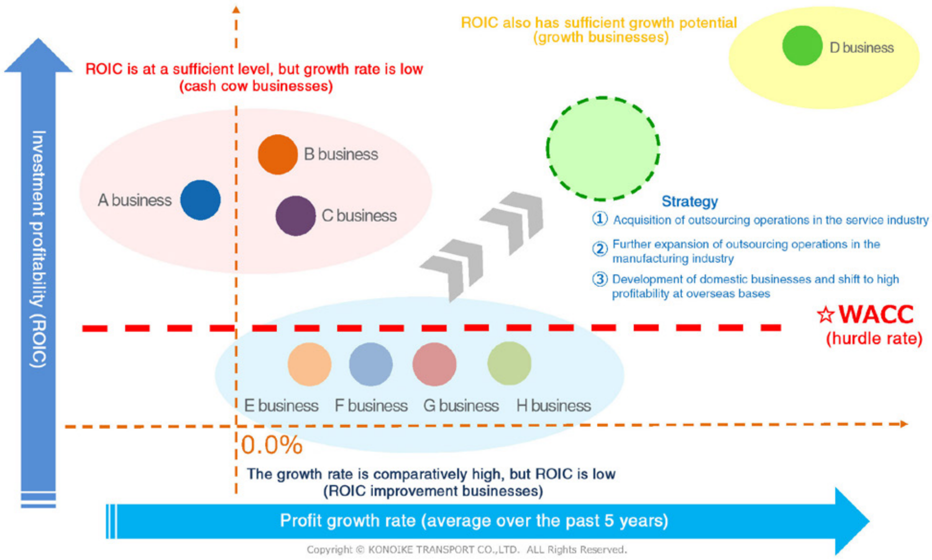
3. Utilizing its strengths: developing "bundling"

As previously explained, the greatest feature and strength of the Company's business model is that it bundles and provides "general logistics + production process services + engineering services." By developing this business model into new fields, the Company will increase the percentage of total operations that are services.

4. Aiming to improve capital efficiency

One financial issue for the Company would seem to be improving the Return on Invested Capital (ROIC). In FY3/16, the Company's ROIC (= net income / (shareholders' equity + interest-bearing debt)) was 5.09%, which cannot be said to be that high a level. Also, there are variations in ROIC between its operations and improving the return in businesses with low investment profitability will be necessary in the future.

Investment profitability–ROIC and measures for growth by business field



Source: Prepared by FISCO from the Company's results briefing materials

5. Growth strategy

The Company has positioned the following as its three key strategies.

(1) Acquisition of outsourcing operations in the services industry
Following the Medical-Related Business and Airport-Related Operations, the Company is aiming to acquire new outsourcing operations in the service industry.

(2) Further expansion of outsourcing operations in the manufacturing industry
In addition to expanding existing outsourcing operations for major steel and food manufacturers, the Company is aiming to acquire new customers in these industries.

(3) Expansion of the domestic business model and shift to high profitability at the overseas bases
The Company will develop overseas the business model that is achieving success domestically, and it is aiming to achieve high profitability for its overseas business.

6. Organization changes toward improving corporate value

The Company is working to “Formulate and realize a growth strategy,” “Improve capital efficiency,” and “Strengthen corporate governance policy” toward improving corporate value. At a Board of Directors meeting held on March 16, 2017, it resolved to make organizational changes effective April 1, 2017, and these changes seem to be intended to more strongly advance measures to improve corporate value.

First, to promote Company-wide growth, it is aiming to strengthen functions from the Sales Development Division serving as the Business Development Division. The Sales Development Division was established on April 1, 2016, with the objectives of creating synergies with the business divisions and creating new business opportunities from a long-term perspective. Following the current organization changes, in addition to consolidate the Company’s M&A-related functions, it was newly established as the Business Development Division with the aim of strengthening the function to create business opportunities by incorporating the function for new business development that was the responsibility of the former Corporate Planning Division. The Business Development Division includes departments to research and introduce new logistics technologies. This Division supervise the strategies to acquire new customers and for new business development for the entire Group, including overseas.

With regard to the airport business also, which is a growth field for the Company, previously it was under the jurisdiction of the Life-related Business Division, but following the current organization changes, it become independent as the Airport Business Division. As a result of this, the airport business is expected to further expand.

Also, the Corporate Planning Division was dismantled, and from within it, the Corporate Planning Department and the Strategic Transformation Division have been integrated and newly established as the Corporate Innovation Promotion Division. Up to the present time, the Corporate Planning Department had been responsible for planning and drafting management plans and the medium-term management plan, while the Corporate Innovation Promotion Division worked on management reforms to promote Group management. By integrating these two organizations, the aim is to link the formulation of the medium-term management plan to the management reforms and to further increase the ability to implement company-wide management strategies.

In addition, the Corporate Strategy Office has been newly established as an organization that reports directly to the Board of Directors. Strengthening governance is one of the most important issues for the Company and it is working to reform the Board of Directors. Specifically, previously the Board of Directors was the highest organization for the execution of operations, but the Company is attempting to reform it so that it instead it focuses on its management supervisory function, of showing the direction for management, such as for the vision and corporate strategy, and supervising the execution of operations. The Corporate Strategy Office has been established with the objective of supporting the management supervision by the Board of Directors that is focus on the management supervision function, in other words, serving as a monitoring board.

Through the current organizational reforms, the Company is also aiming to respond to another of the management issues it is currently facing, of labor shortages and worker reforms. Previously, human resources management and the recruitment of Division personnel in the Company was under the jurisdiction of the General Affairs / Personnel Division, while the Labor Division was responsible for recruiting on-site personnel. But following the current organizational changes, both organizations have been integrated as the Personnel / Labor Division, toward establishing an integrated system to manage the personnel in the entire Group. Under the Personnel / Labor Division, the Personnel Planning Department, the Recruiting Department, and the Personnel Trainning Department has been newly established, in addition to strengthening the functions for personnel recruitment and training, the Company actively implement measures for diversity. The General Affairs Department in the General Affairs / Personnel Division has been made independent, with the aim of strengthening the governance function.

FY3/18 is the final year of the Company's current medium-term management plan, and it can be said that in this one year it is preparing for the next medium-term management plan through the efforts described above. We are paying attention to the reforms that it makes during this year.

Shareholder return policy

Plans to maintain a dividend payout ratio of around 30%

The Company decides its dividend policy based on its basic policy of "Returning to shareholders the cash flow realized through measures to improve corporate value." Its dividend payout ratio results in the past 2 years were 23.5% in FY3/15 and 29.3% in FY3/16, while the full year dividend for FY3/17 is forecast to be ¥35.0, and if it achieves its income forecasts, the dividend payout ratio will be 29.3%. The Company plans to maintain the dividend payout ratio at around 30% in FY3/18 also.

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