

Result Briefing for the Year Ended March 2022, Main Questions and Answers (Summary)

May 11, 2022

Alps Logistics Co., Ltd.

The result briefing on May 11 (Wed.) was conducted in an online format. Questions and our explanations are as follows.

(Business environment of electronic components logistics)

Q: What is the impact of the automotive production adjustments and semiconductor shortages on the Company's financial results?

A: We believe that production adjustments and semiconductor shortages will continue. In the electronic components logistics business, we have a very large volume of automobile-related components, which account for about 30% of our non-group sales, especially in Japan, Europe, and North America. Europe is affected by the Ukraine situation in addition to the semiconductor shortages. We decline to state the impact in value terms, but it is reflected in the forecast.

Q: What is the impact of the intensified competition in international logistics and the Shanghai lockdown on the forecast for this fiscal year?

A: The Shanghai lockdown is a challenging situation. Import/export cargo is being routed to airports outside of Shanghai and then transported overland to avoid the problem, but securing cargo space on flights destined for those non-Shanghai airports is also extremely difficult. Warehouses have also been closed, so the impact is severe.

Q: Can I take the view that the environmental impact from around the second half of last year was rather favorable, but is now switching to unfavorable due to the Shanghai lockdown and semiconductor shortages? Or is the environment still favorable? I would like to know the flow of events in chronological order.

A: The favorable impact was strong in the first half of last fiscal year, but weakened from the second half. Although there is still some favorable impact left, it has weakened considerably as competition in international transportation has gradually intensified. It is unclear whether the Shanghai lockdown will be prolonged or not, but as the authorities' approval is gradually being granted, we expect our difficulties to be resolved in the future.

Q: Emergency transportation is expected to decrease. What do you think about the impact of labor negotiations, etc. in North America?

A: From the second half of this year, we expect international cargo to gradually normalize, and emergency cargo to decrease accordingly. We expect the tightness in air cargo transportation to ease once passenger flights return. It is not clear to us how ocean cargo will recover. We are considering avoiding the West Coast dockworkers' negotiations that take place every five years, by directly landing in Mexico or using the westbound route, and we will be prepared for this.

(Business strategies of electronic components logistics)

Q: What is the background behind your overseas strategy, which is to target North America and India?

A: In North America and Eastern Europe, we aim to expand and acquire car-related business. We have only three sites in India, including New Delhi and Gujarat, and need to expand in the 5- and 10-year range. We have not yet decided on specific locations, but we believe that the project will not be completed unless we have at least six sites in locations such as Bangalore and Pune.

Q: You seem to be emphasizing joint logistics more than before. Do you think this emphasis is having an impact on customer acquisition?

A: Consolidated pickup and delivery and sharing warehousing have long been one of our strengths. The single term “electronic components logistics” encompasses many different approaches taken by different customers. There are 1,000 different solutions for 1,000 different customers. This is what we are focused on. We have not publicized it much, but we would like to emphasize our contribution to the environment in addition to the rationality of our customers' economic efficiency. There have not been so many actual cases, but our solutions are appreciated. For example, one of our customers was happy to see a 25% reduction in their CO2 emissions. We would like to provide customers with simulations of emissions in the future.

Q: You mentioned environmental responses. When you receive work from customers as a logistics company, do you find that environmental initiatives are becoming one of the major criteria for selecting a logistics company? Do you sense that, when working with global companies or foreign-affiliated companies over the past year or two?

A: The situation has not changed to the point where environmental initiatives trigger an increase in orders. Many customers believe that the pursuit of economic efficiency equals the reduction of environmental impact. Currently, there are no hybrid or other environmentally friendly vehicles among heavy-duty trucks. My impression is that companies that demand environmentally friendly solutions are still few. Of course, the trend is to choose companies that also take strong environmental measures.

(Business strategies of consumer products logistics)

Q: A question about consumer products logistics. Is there any progress on the capital alliance between Ryutsu Service and Trancom?

A: The contract is intended to provide assistance only in emergency situations such as disasters, and no such situation has arisen so far.

(Others)

Q: As you increase external sales, do you see any positive effects of enhanced governance, including becoming unconsolidated, on gaining non-group sales business?

A: To make it clear that governance is in place even in our company which has a controlling shareholder, we have made independent outside officers a majority on the board of directors. We have always managed the company independently, even though there has been a controlling shareholder, so we do not expect any particular changes.

Enhanced governance should appeal to customers but we believe it should appeal to shareholders more.

Q: You mentioned capital and business alliances in capital investment. What do you have in mind?

A: It is about whether it would be better to go it alone or to work with other companies regarding technology, licenses, people, know-how, etc. that we lack. When working with other companies, we first consider a business alliance, and then possibly a capital alliance. We established a joint corporation with Logicom the year before last. This was aimed at developing business that would utilize expertise of delivery to automotive manufacturers.

Q: Do you consider both domestic and international in terms of regions? Are you mainly targeting companies in the same industry of logistics?

A: That is correct. However, we are also looking for new possibilities, such as partnering with startup companies, so we are not limiting our target to companies in the same industry.

Q: Many industries seem to be seeing more cases of “the strong always wins” due to the aging of the population and the shortage of human resources. Is this true in the field of electronic components logistics as well? What is your company's market position and where do you aim to be in the future? Also, what is the meaning and intent of pursuing M&A?

A: Basically, we too are working to reduce the burden on people in the field. One of the major measures is automation and robotization. The other is improving operational efficiency. Together with robotics, we are doing things to improve the content and processes of our operations. We have introduced TIE for the past several years, and it has been effective. We have also reviewed the hiring and the treatment of the personnel we seek, and our hiring and retention rates are improving. We do not see any major problems at this point.

END