

Result Briefing for the Six Months Ended September 2022, Main Questions and Answers
(Summary)

November 7, 2022
Alps Logistics Co., Ltd.

The result briefing on November 7 (Mon.) was conducted in an online format. Questions and our explanations are as follows.

(Business environment)

Q: Amid the ongoing disruption to marine transportation, how do you see the outlook? It seems that the situation is getting much better in North America, but does the cost of ocean freight remain elevated?

A: Congestion of container ships in North America (Los Angeles and Long Beach) is easing into the second half. Containers stuck in North America have also started to be shipped across the world. Lower demand caused by inflation and other factors are gradually easing the supply-demand balance of marine transportation, and the cost of ocean freight is also declining slowly, albeit differently for each route. We are still suffering from insufficient space for air freight in October and November, and the airfare has not dropped.

Q: The situation of air transportation is reportedly improving for competitors, but is the space still insufficient in your view?

A: Although the situation is different for each route, we feel that the space crunch is more severe for air transportation than for marine transportation. The space crunch has been less serious than before but has yet to be eliminated in the current peak season. Going forward, as cargo space will increase in line with an increase in passenger flights, we expect the supply and demand to become more balanced.

Q: How is the situation regarding the decrease in semiconductor-related volume?

A: Our customers say the situation has improved, but they are still short of some components. Our impression as a cargo handling operator is that the situation has been polarized: Some components are shipped soon after they come in stock, while others pile up in a warehouse.

(Financial results for the six months ended September 2022 and the year ending March 2023)

Q: The electronic components logistics business performed strongly in the first half due in part to the yen's depreciation. Does this mean that the depreciation of the yen positively affected the export/import operations?

A: As the yen depreciated against each country's currency, foreign currency translation adjustments of

financial results of overseas subsidiaries and affiliates had a positive impact on sales and profits. The export/import business as well as the warehouse and transportation businesses recorded increased sales in overseas locations, further adding to the positive effect of the yen's depreciation.

Q: I understood the favorable performance of export/import in the first half, but was the performance of electronic components logistics in Japan sluggish due to reduced production of automobiles?

A: In Japan, shipments were slow due partly to the suspension of production by automobile manufacturers. While our warehouses stored a large quantity of inventory, sluggish shipments significantly impacted the transportation business.

Q: Sales and operating income were 1.4 billion yen and nearly 0.9 billion yen higher, respectively, than the initial plan in the first half. However, in the second half, while sales will far exceed the plan by 4.6 billion yen, operating income is expected to increase by a mere 0.25 billion yen from the plan. Does this indicate that marine cargo will increase and air freight will decrease?

A: There are some reasons income will increase in the second half at a lower rate than sales compared to the plan at the beginning of the fiscal year. The first reason is that emergency air freight will decrease (customers will increasingly choose not to fly cargo that they could not load on the boat). Because marine cargo operations will become more competitive, the spot unit price is expected to fall rapidly. We are still suffering from insufficient space for air freight in October and November, but the unit price is estimated to go down in the fourth quarter.

Furthermore, sales of products with low profit margin will increase. Such sales will increase after the recovery of logistics for customers related to in-vehicle equipment, but as their profit margin is low, income will rise at a lower rate than sales.

Q: While existing businesses plateau, new businesses are growing. Is this due to air freight?

A: Many customers had trouble in international transportation due to supply chain disruptions caused by COVID-19, and contracted us with air transportation, which led to them using our other logistics services in many cases. In addition, we were consulted by many customers about reviewing their supply chain.

Q: Could you explain about an increase in income driven by increased sales in terms of sales expansion and export/import, respectively?

A: I can only give you a rough explanation, but on a net sales basis, 1.6 billion yen out of 10.6 billion yen recorded in the first half from sales expansion and export/import were attributable to export/import (air), and the rest to sales expansion. For the full year, export/import will contribute to sales increases of approximately 3.0 billion yen.

(Business strategies)

Q: You are newly constructing and expanding warehouses, but the business environment is severe. Are you not concerned about the progress in sales expansion activity?

A: We intend to increase both our own warehouses and leased warehouses. Despite constraints due to COVID-19, we were able to gain new customers over the past two years. In some cases, customers who first used our air or marine cargo handling services subsequently used our warehouse services. Furthermore, due in part to supply chain disruptions brought about by COVID-19, some customers outsource logistics operations that they ran on their own. For these two reasons, we believe that we have secured sufficient cargo volume for warehouses scheduled to be constructed or expanded.

Q: What are your specific ideas about your collaboration with Ryutsu Service? Do you plan to share warehouses?

A: We have already shared trucks and warehouses. Ryutsu Service and Alps have different technologies for logistics as we handle different types of cargo, so we plan to collaborate by combining technologies owned by Ryutsu Service and us. Moreover, we will enter new markets and approach new customers. Although the collaboration has yet to produce results, collaborative efforts are underway.

Q: Since the onset of the COVID-19 pandemic, supply chains have changed. What is the status of returning to domestic production and increases in inventory? Can the acceleration of these events pose a business opportunity?

A: Many customers increased their safety stock because component shortages affected production. This has resulted in increases in inventory at warehouses. Our impression is that customers have started to streamline their supply chain due to huge costs incurred for international transportation. We recognize changes in shipping routes as a business opportunity, and intend to make proposals to customers and lead them to business transactions. With respect to returning to domestic production, the situation seemed to be mostly unchanged.

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