VALUE BEYOND LOGISTICS

MITSUI-SOKO GROUP

# MITSUI-SOKO HOLDINGS Co., Ltd.

Financial Results Briefing for the Six Months Ended September 30, 2023

November 15, 2023

# Event Summary

| | |
|---|---|
| **[Company Name]** | MITSUI-SOKO HOLDINGS Co., Ltd. |
| **[Company ID]** | 9302-QCODE |
| **[Event Language]** | JPN |
| **[Event Type]** | Earnings Announcement |
| **[Event Name]** | Financial Results Briefing for the Six Months Ended September 30, 2023 |
| **[Fiscal Period]** | FY2024 Q2 |
| **[Date]** | November 15, 2023 |
| **[Number of Pages]** | 29 |
| **[Time]** | 10:30 – 11:29<br>(Total: 59 minutes, Presentation: 32 minutes, Q&A: 27 minutes) |
| **[Venue]** | Webcast |
| **[Venue Size]** | |
| **[Participants]** | |
| **[Number of Speakers]** | 3 |

| | |
|---|---|
| Hirobumi Koga | Representative Director, President & CEO |
| Nobuo Nakayama | Representative Director, Senior Managing Director |
| Takeshima Nishimura | Senior Executive Officer, General Manager Strategic Planning Division |

## Presentation

**Moderator:** We will now begin the financial results briefing of MITSUI-SOKO HOLDINGS Co., Ltd. for Q2 of the fiscal year ending March 31, 2024.

To begin, I would like to introduce today's speakers. Mr. Hirobumi Koga, Representative Director, President & CEO.

**Koga:** I am Koga. Thank you.

**Moderator:** Mr. Nobuo Nakayama, Representative Director and Senior Managing Director.

**Nakayama:** My name is Nakayama. Thank you.

**Moderator:** Mr. Takeshi Nishimura, Senior Executive Officer, General Manager Strategic Planning Division.

**Nishimura:** Hello, this is Nishimura. Thank you.

**Moderator:** Thank you. Today, we will begin with a greeting from President Koga, followed by Senior Managing Director Nakayama who will provide an overview of the financial results and full-year outlook, and President Koga will explain the progress of the medium-term management plan 2022. This will be followed by a question-and-answer session, and the session is scheduled to end around 11:30 AM.

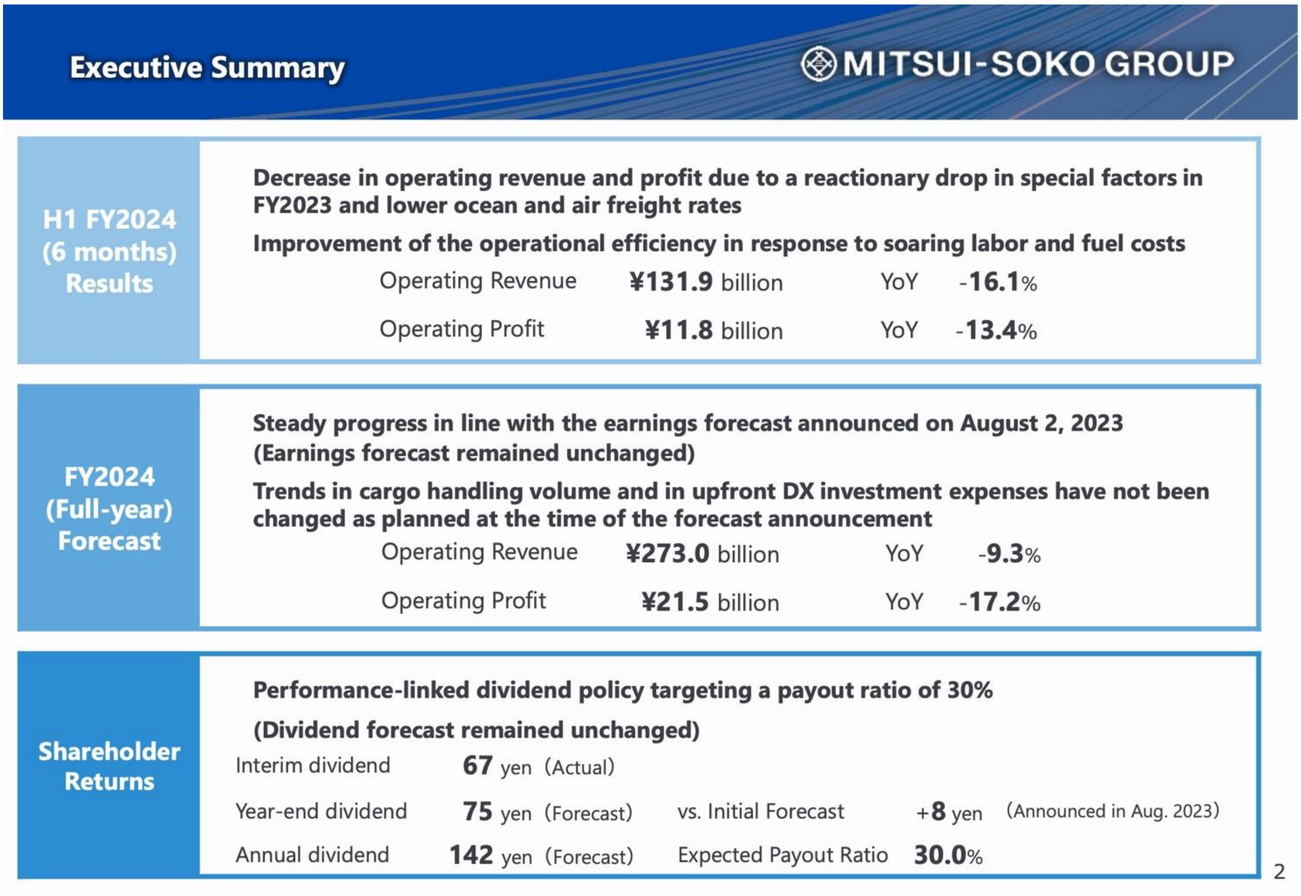
The explanatory materials are also available on our website. The briefing will be streamed live. On-demand distribution will be available later.

Now, we will start the presentation. President Koga, please begin.

**Koga:** Hello, everyone. I'm Koga, President of MITSUI-SOKO. Thank you very much for taking time out of your busy schedule to participate in our financial results briefing for Q2 of the fiscal year ending March 31, 2024, today.

Mr. Nakayama, Senior Managing Director, will now give an overview of the financial results and the outlook for the full year.


**Nakayama:** My name is Nakayama. Thank you. I will now explain the Q2 financial results along with the explanatory materials.




First, I will provide a summary of the Q2 results and the full-year forecast. Please see page two.

As we will explain in detail later, the Q2 results showed a decrease in both revenue and profit due to a reactionary drop in special factors of the previous fiscal year and a drop in ocean and air freight rates. In this environment, the Company has improved operational efficiency and secured profits as planned.

We also expect that the full-year forecast will be in line with the business forecast announced in August.

## Summary of H1 FY2024 Financial Results

MITSUI-SOKO GROUP

- **Decrease in operating revenue and profit mainly due to a reactionary drop in special factors in FY2023 and lower ocean and air freight rates**
- **Secured profitability due to improvement of the operational efficiency and appropriate collection fees in response to increase in cost of sales**
- **Decrease in net income for H1 FY2024 due to a reactionary decline in extraordinary gains in the previous fiscal year**

(Unit: 100 mil. yen)

| Total Consolidated | H1 FY2023 (6 months) | H1 FY2024 (6 months) | Change | Change |
|---|---|---|---|---|
| Operating Revenue | 1,573 | **1,319** | -254 | -16.1% |
| Operating Profit | 136 | **118** | -18 | -13.4% |
| [ Operating Profit Margin | 8.7% | **9.0%** | +0.3pt | — ] |
| Ordinary Profit | 144 | **122** | -22 | -15.5% |
| Profit attributed to owners of parent | 92 | **72** | -20 | -21.7% |

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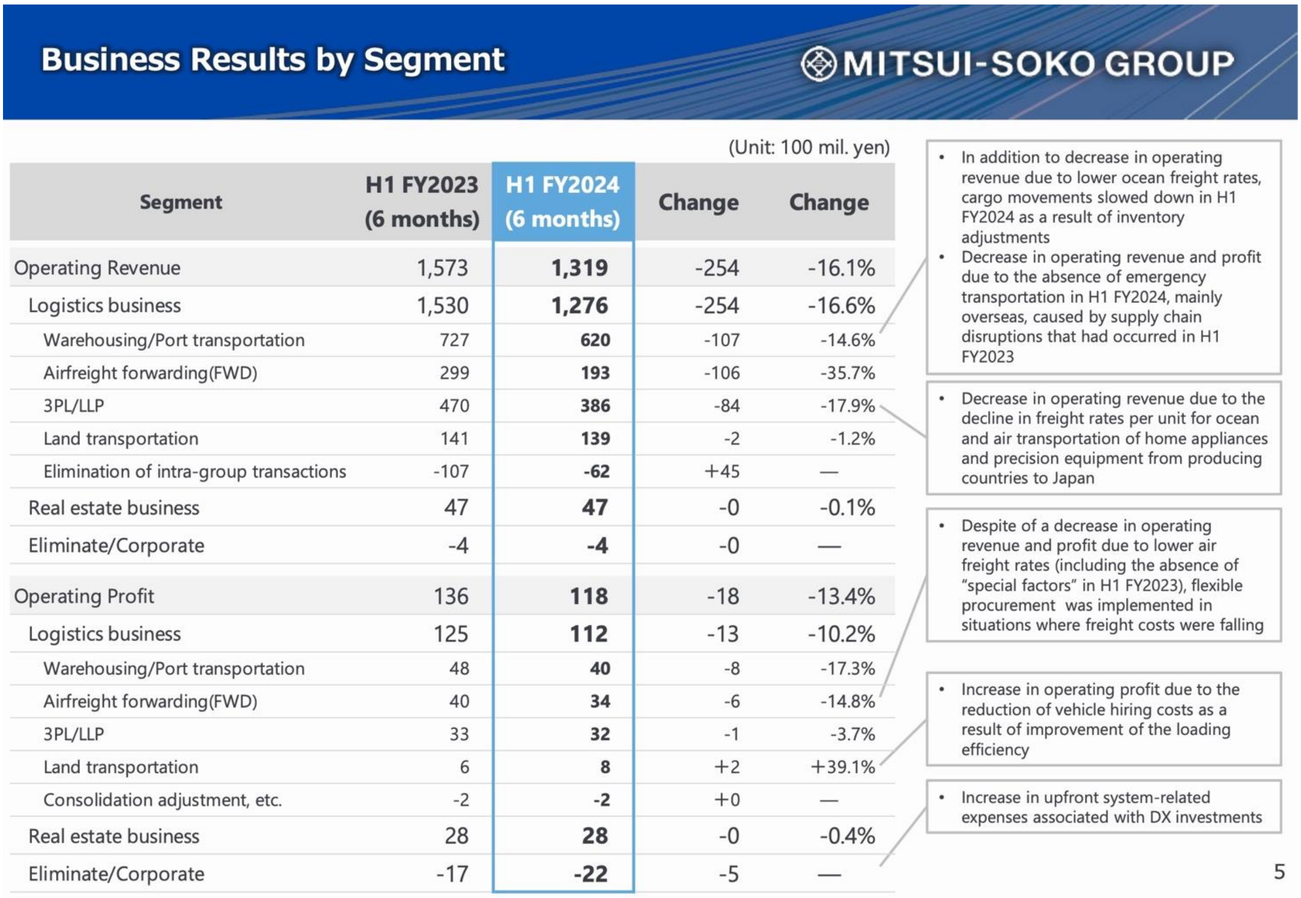
Please see page four. For Q2, operating revenue decreased by JPY25.4 billion YoY to JPY131.9 billion, and operating profit decreased by JPY1.8 billion to JPY11.8 billion.

Despite the decrease in revenues and profits, the Company has been improving operational efficiency and appropriate collection fees in response to the increase in cost of sales, thereby securing profitability.

Ordinary profit and net income also decreased from the previous period. The decrease in net income was also due to a reactionary decline in extraordinary gains in the previous fiscal year.



## Business Results by Segment

MITSUI-SOKO GROUP

(Unit: 100 mil. yen)

| Segment | H1 FY2023 (6 months) | H1 FY2024 (6 months) | Change | Change |
|---|---|---|---|---|
| Operating Revenue | 1,573 | **1,319** | -254 | -16.1% |
| Logistics business | 1,530 | **1,276** | -254 | -16.6% |
| Warehousing/Port transportation | 727 | **620** | -107 | -14.6% |
| Airfreight forwarding(FWD) | 299 | **193** | -106 | -35.7% |
| 3PL/LLP | 470 | **386** | -84 | -17.9% |
| Land transportation | 141 | **139** | -2 | -1.2% |
| Elimination of intra-group transactions | -107 | **-62** | +45 | — |
| Real estate business | 47 | **47** | -0 | -0.1% |
| Eliminate/Corporate | -4 | **-4** | -0 | — |
| Operating Profit | 136 | **118** | -18 | -13.4% |
| Logistics business | 125 | **112** | -13 | -10.2% |
| Warehousing/Port transportation | 48 | **40** | -8 | -17.3% |
| Airfreight forwarding(FWD) | 40 | **34** | -6 | -14.8% |
| 3PL/LLP | 33 | **32** | -1 | -3.7% |
| Land transportation | 6 | **8** | +2 | +39.1% |
| Consolidation adjustment, etc. | -2 | **-2** | +0 | — |
| Real estate business | 28 | **28** | -0 | -0.4% |
| Eliminate/Corporate | -17 | **-22** | -5 | — |

- In addition to decrease in operating revenue due to lower ocean freight rates, cargo movements slowed down in H1 FY2024 as a result of inventory adjustments
- Decrease in operating revenue and profit due to the absence of emergency transportation in H1 FY2024, mainly overseas, caused by supply chain disruptions that had occurred in H1 FY2023

- Decrease in operating revenue due to the decline in freight rates per unit for ocean and air transportation of home appliances and precision equipment from producing countries to Japan

- Despite of a decrease in operating revenue and profit due to lower air freight rates (including the absence of "special factors" in H1 FY2023), flexible procurement was implemented in situations where freight costs were falling

- Increase in operating profit due to the reduction of vehicle hiring costs as a result of improvement of the loading efficiency

- Increase in upfront system-related expenses associated with DX investments

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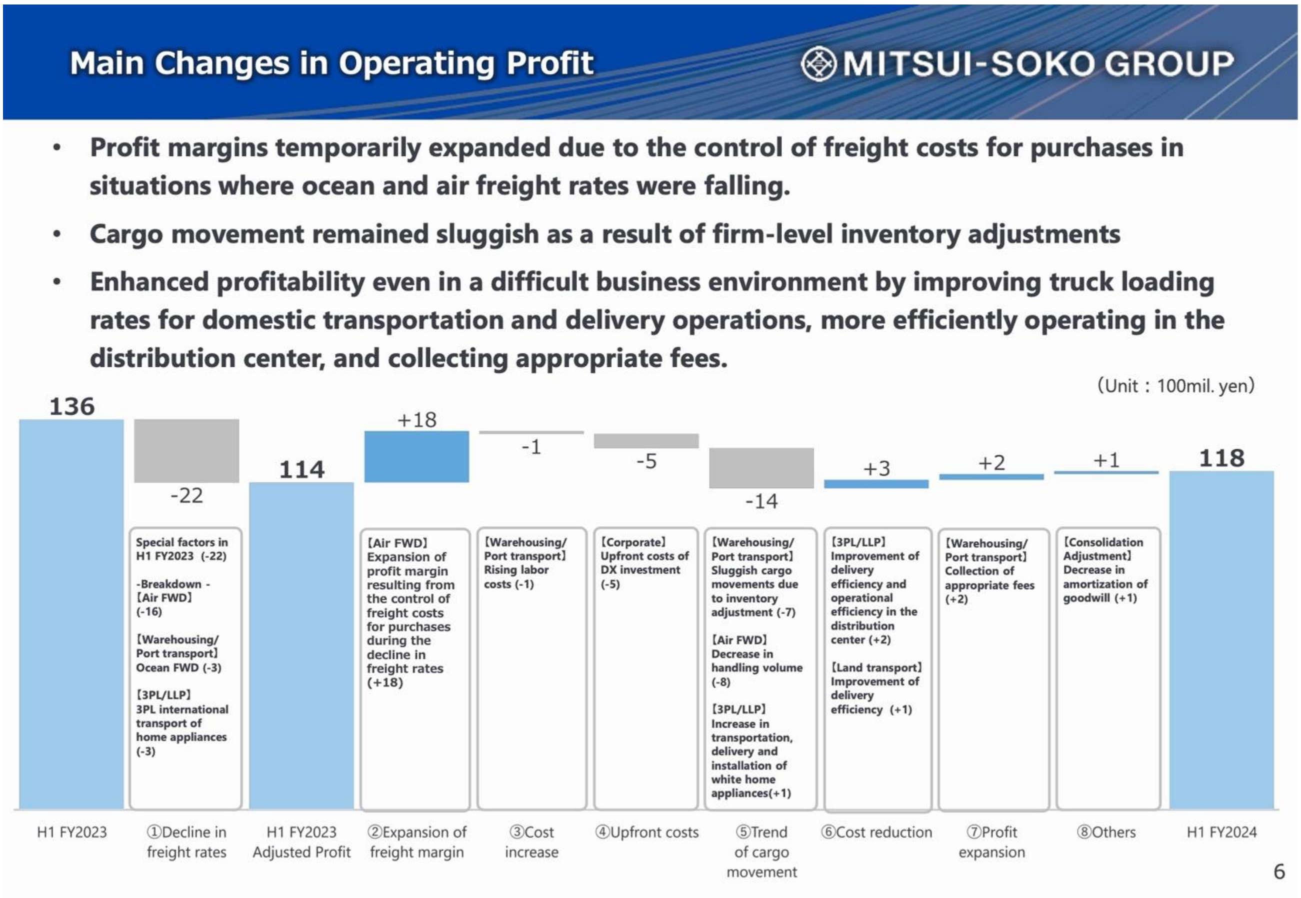
Please see page five. I would like to explain our business performance by segment. As for operating revenues, the warehousing & port transportation, airfreight forwarding, and 3PL/LLP segments reported lower revenues due to the impact of declining ocean and air freight rates in international transportation.

As you can see in the bottom line, operating profit decreased mainly in warehousing and port transportation and the international transportation portion of airfreight forwarding, due to the impact of the decline in ocean and air freight rates, as I mentioned earlier.

On the other hand, in 3PL/LLP and land transportation, we are working to improve profitability by streamlining domestic transportation and distribution center operations, improving truck loading efficiency and other cost reduction measures, as well as appropriate collection fees.

In addition, the real estate business remained flat, while corporate expenses incurred upfront costs associated with the execution of DX investments.




Next, I will explain the factors behind the changes in operating profit. Please see the step chart on page six. I will use the actual value of JPY11.4 billion as a starting point, which was calculated by subtracting the special factor of JPY2.2 billion in the previous fiscal year, which was the portion of the decline in freight unit price in one, from the actual value of JPY13.6 billion in Q2 of the previous fiscal year.

The expansion in freight margin in two, was due to flexible procurement during the period of falling freight rates, resulting in an increase in margin.

In addition to the cost increase factors such as labor cost three, and upfront costs four, as indicated in the trend of cargo movement five, customers continued to adjust inventories and cargo movement slowed down until H1 of the fiscal year, resulting in a decrease in profit.

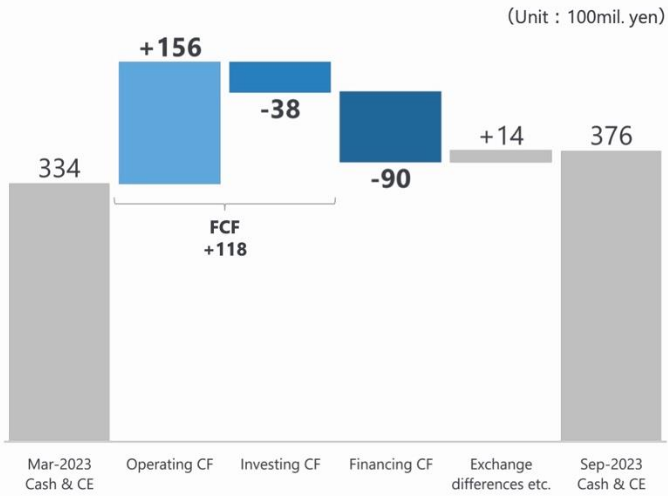
On the other hand, operating profit for Q2 was JPY11.8 billion, due in part to the effects of cost reductions from efficiency improvements in six, and the effects of efforts to collect appropriate fees in seven.

With the disappearance of the special factors that had been in place until the previous fiscal year, the Company has steadily strengthened its earning power in the area of competence, even in a difficult business environment where cargo movements remained sluggish.

## Cash Flow Status

MITSUI-SOKO GROUP

- **Operating cash flow (CF) resulted in a net cash inflow of ¥15.6 billion, mainly due to net income and collection of accounts receivable**
- **Implementation of investment in maintenance and renewal of logistics facilities, in software based on DX strategy, and in a partner company engaged in the commercialization of trunk route transportation services using self-driving trucks**




**Major Breakdown of Cash Flows**

| | | |
|---|---|---|
| • **Operating CF** | : | **+156** |
| Profit before income taxes | : | +123 |
| Depreciation/Amortization of goodwill | : | +49 |
| Decrease (increase) in trade receivables/trade payables | : | +14 |
| Income taxes paid | : | -44 |
| • **Investing CF** | : | **-38** |
| Capital investment | : | -25 |
| Software investment | : | -17 |
| Payment of investment in capital | : | -5 |
| **(Subtotal) Free cash-flow** | : | **+118** |
| • **Financing CF** | : | **-90** |
| Change in borrowings and bonds (Net) | : | -27 |
| Dividends paid | : | -29 |
| • **Total of Change in Cash and cash equivalents** | : | **+42** |

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Please see page seven. I will explain cash flows. Operating cash flow was a net cash inflow of JPY15.6 billion. This was mainly due to the recording of net income and the collection of accounts receivable.

Cash flow from investments resulted in a cash outflow of JPY3.8 billion. Mainly, we invested in the maintenance and renewal of logistics facilities and in software based on our DX strategy. We also invested in a partner company that is working to commercialize a trunk route transportation service using self-driving trucks.

Financing cash flow, as noted in the materials, was a net cash outflow of JPY9 billion, mainly due to repayment of debt and dividend payments.

As a result, cash and deposits at the end of the period totaled JPY37.6 billion.

## Balance Sheet Status

MITSUI-SOKO GROUP

- **Improved both equity ratio and D/E ratio due to steady accumulation of net income**

(Unit: 100 mil. yen)

| Total Consolidated | Balance as of Mar. 31, 2023 | Balance as of Sep. 30, 2023 | Change |
|---|---|---|---|
| Total Assets | 2,587 | **2,648** | +61 |
| Cash and deposits | 345 | **385** | +40 |
| Trade receivables | 323 | **307** | -16 |
| Tangible and Intangible assets | 1,493 | **1,495** | +2 |
| Interest-bearing debt (including Lease obligations) | 926 | **894** | -32 |
| Borrowings and Bonds | 851 | **825** | -26 |
| Lease obligations | 76 | **69** | -7 |
| Equity Capital | 933 | **1,019** | +86 |
| Equity ratio | 36.1% | **38.5%** | +2.4 |
| D/E ratio | 0.99 | **0.88** | -0.11 |

- Investment in maintenance and renewal of existing facilities, increase in intangible assets due to software investment based on DX strategy

- Reasons for the change in equity capital:
Net Income (+¥7.1bln),
Dividends (-¥2.9bln),
Exchange differences (+¥3.0bln),
Unrealized gains on securities (+¥1.3bln)

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Please see page eight. I will explain the balance sheet. Total assets increased JPY6.1 billion from the previous period to JPY264.8 billion, mainly due to an increase in cash and deposits.

Interest-bearing debt, including lease obligations, decreased JPY3.2 billion to JPY89.4 billion.

Equity capital increased by JPY8.6 billion to JPY101.9 billion, mainly due to the accumulation of profit and an increase in exchange differences.

As a result, the equity ratio improved to 38.5% and the D/E ratio improved to 0.88 times.

## Summary of FY2024 Results Forecast

MITSUI-SOKO GROUP

- **Steady progress in line with the earnings forecast announced on August 2, 2023 (Earnings forecast remained unchanged)**
- **Steady progress in cargo handling volume, upfront DX investment expenses, and the launch of new bases as planned at the time of the August earnings forecast announcement.**

(Unit: 100 mil. yen)

| Total Consolidated | FY2023 Actual ('22.4-'23.3) | FY2024 Forecast ('23.4-'24.3) | Change | Change |
|---|---|---|---|---|
| Operating Revenue | 3,008 | **2,730** | -278 | -9.3% |
| Operating Profit | 260 | **215** | -45 | -17.2% |
| Ordinary Profit | 265 | **207** | -58 | -22.0% |
| Profit attributed to owners of parent | 156 | **118** | -38 | -24.4% |

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Please turn to page 10. I would like to explain our full-year business forecast. The full-year forecasts remain unchanged from those announced in August, with operating revenue of JPY273 billion and operating profit of JPY21.5 billion.

Current performance is progressing steadily in line with the earnings forecast announced in August. Although there are uncertainties about the outlook for domestic and overseas economic trends, we currently expect that future cargo handling volumes and upfront costs such as DX investments will progress as planned.

## Business Results Forecast by Segment

MITSUI-SOKO GROUP

(Unit: 100 mil. yen)

| Segment | FY2023 Actual ('22.4-'23.3) | FY2024 Forecast ('23.4-'24.3) | Change | Change |
|---|---|---|---|---|
| Operating Revenue | 3,008 | **2,730** | -278 | -9.3% |
| Logistics business | 2,920 | **2,640** | -280 | -9.6% |
| Warehousing/Port transportation | 1,383 | **1,320** | -63 | -4.5% |
| Airfreight forwarding(FWD) | 568 | **400** | -168 | -29.6% |
| 3PL/LLP | 879 | **780** | -99 | -11.2% |
| Land transportation | 279 | **290** | +11 | +3.9% |
| Elimination of intra-group transactions | -189 | **-150** | +39 | — |
| Real estate business | 96 | **96** | -0 | -0.3% |
| Eliminate/Corporate | -8 | **-6** | +2 | — |
| Operating Profit | 260 | **215** | -45 | -17.2% |
| Logistics business | 239 | **211** | -28 | -11.8% |
| Warehousing/Port transportation | 89 | **83** | -6 | -6.5% |
| Airfreight forwarding(FWD) | 78 | **52** | -26 | -33.6% |
| 3PL/LLP | 62 | **62** | +0 | +0.6% |
| Land transportation | 13 | **15** | +2 | +19.5% |
| Consolidation adjustment, etc. | -3 | **-1** | +2 | — |
| Real estate business | 59 | **57** | -2 | -3.5% |
| Eliminate/Corporate | -38 | **-53** | -15 | — |

- Expectation of a decrease in operating revenue due to the decline in freight rates per unit for ocean and air transportation of home appliances and precision equipment from producing countries to Japan
- Expectation of a decrease in operating revenue and profit due to lower air freight rates (including the absence of "special factors" in FY2023)
- Continuing efforts to increase in operating profit due to the reduction of vehicle hiring costs as a result of improvement of the loading efficiency
- Increase in upfront system-related expenses associated with DX investments

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Please turn to page 11. The following table shows the forecast of business performance by segment. As explained in the slide of the Q2 results, operating revenues of the logistics business are expected to decrease from the previous year in the three segments of warehousing and port transportation, airfreight forwarding, and 3PL/LLP, due to a decline in unit prices of ocean and air freight rates, including the absence of special factors.

Similarly, operating profit is expected to decrease mainly in warehousing and port transportation and airfreight forwarding due to the absence of special factors and the impact of falling unit prices.

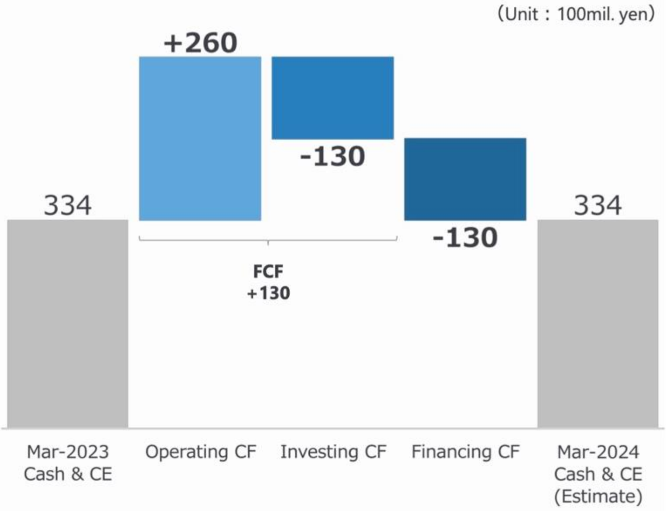
The 3PL/LLP and land transportation are expected to increase in profit mainly due to the effects of efficiency improvement initiatives.

## Cash Flow Forecast

MITSUI-SOKO GROUP

- **Operating cash flow (CF) expects to be a net cash inflow of ¥26.0 billion**
- **In addition to DX investment and investment in maintenance and renewal of logistics facilities, part of construction costs of the MITSUI-SOKO Hakozaki Building to renovate it into a multi-tenant office is planned to be paid.**

(Unit：100mil. yen)




**Major Breakdown of Cash Flows（Forecast)**

| | | |
|---|---|---|
| **• Operating CF** | : | **+260** |
| Depreciation/Amortization of goodwill | : | +100 |
| **• Investing CF** | : | **-130** |
| Capital investment | : | -85 |
| Software investment | : | -45 |
| Payment of investment in capital | : | -5 |
| **(Subtotal）Free cash-flow** | : | **+130** |
| **• Financing CF** | : | **-130** |
| Change in borrowings and bonds（Net) | : | -65 |
| Dividends paid | : | -45 |
| **• Total of Change in Cash and Cash Equivalents** | : | **±0** |

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Please turn to page 12. I will explain the cash flow forecast. Operating cash flow is expected to be a cash inflow of JPY26 billion.

Investment cash flow is expected to be a cash outflow of JPY13 billion. We plan to continue to invest in the maintenance and renewal of facilities as well as in DX. In addition, a portion of the Hakozaki Building's multi-tenant construction fee is scheduled to be paid in H2 of the fiscal year.

Regarding financing cash flow, we expect a cash outflow of JPY13 billion due to repayment of borrowings and dividend payments.

## Balance Sheet Forecast

MITSUI-SOKO GROUP

- **Expectation of remaining in D/E ratio less than 1.0x**
- **Secure investment capacity in preparation for the execution of strategic investments**

(Unit: 100 mil. yen)

| Total Consolidated | Balance as of Mar. 31, 2023 (Actual) | Balance as of Mar. 31, 2024 (Forecast) | Change |
|---|---|---|---|
| Total Assets | 2,587 | **2,650** | +63 |
| Cash and deposits | 345 | **345** | +0 |
| Trade receivables | 323 | **300** | -23 |
| Tangible and Intangible assets | 1,493 | **1,535** | +42 |
| Interest-bearing debt (including Lease obligations) | 926 | **860** | -66 |
| Borrowings and Bonds | 851 | **785** | -66 |
| Lease obligations | 76 | **75** | -1 |
| Equity Capital | 933 | **1,045** | +112 |
| Equity ratio | 36.1% | **39.4%** | +3.3 |
| D/E ratio | 0.99 | **0.82** | -0.17 |

- Expectation of an increase in intangible assets due to software investment based on the DX strategy
- Expectation of an increase in tangible assets due to partial payment for construction costs of the Hakozaki Building to renovate it into a multi-tenant office

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Please see page 13. Next, I will explain the balance sheet forecast. The balance of interest-bearing debt at the end of the fiscal year ending March 31, 2024, is expected to be JPY86 billion, a decrease of JPY6.6 billion from the end of the previous fiscal year.

Equity capital is expected to increase by JPY11.2 billion from the end of the previous fiscal year to JPY104.5 billion, the equity ratio is expected to improve to 39.4% and the D/E ratio to 0.82 times.

The D/E ratio is expected to temporarily fall below the financial discipline target of 1 times in the medium-term management plan, but this is due to the fact that the Company has sufficient investment capacity in light of future investment plans, including the multi-tenant construction of the Hakozaki Building to be executed in the next fiscal year.

We will continue to control our balance sheet based on a D/E ratio of 1 times from a medium- to long-term perspective toward the final year of the medium-term management plan.


Please refer to page 15. Finally, I would like to briefly introduce our efforts to enhance our corporate value.

The Company executes management with an awareness of the cost of capital and stock price in order to increase corporate value. In the current medium-term management plan, the ROE target for the final year is set at 12%, and we are working on various measures to achieve this target.

We also hold dialogues with shareholders and investors as needed. Please refer to the expanded disclosure of the details of our logistics business results from this fiscal year, which were particularly requested in our most recent dialogue with investors.

This concludes my presentation. Thank you very much for your attention.

**Moderator:** Thank you. Next, President Koga will explain the progress of the medium-term management plan 2022. President Koga, please go ahead.

**Koga:** I am Koga. Thank you. I would like to explain the progress of our medium-term management plan 2022, a five-year plan whose first year is the fiscal year ending March 2023, with a focus on initiatives for this fiscal year, which is the second year.


First, let me reiterate the outline of the medium-term management plan 2022. Please see page 17.

Under the medium-term management plan 2022, the three pillars of our growth strategy are top-line growth by mobilizing the Group's collective strengths, reinforcement of Operational Competitiveness, and building management foundation to support the deepening. We have also set quantitative targets for financial aspects such as cash allocation and capital efficiency to promote the plan.

For the fiscal year ending March 31, 2027, the final year of the plan, we target operating revenue of JPY350 billion, operating profit of JPY23 billion, and operating cash flow of JPY30 billion.

I would like to supplement the assumptions for the numerical targets for operating profit. Of the JPY25.9 billion in results for the fiscal year ended March 31, 2022, the final year of the previous medium-term plan, JPY8.9 billion was due to temporary special factors such as the soaring airfares caused by the spread of the coronavirus, so the actual value of JPY17 billion is the launching point.

In this medium-term business plan, we expect a one-time decrease in profit of JPY3.3 billion due to tenant replacement and other factors in order to convert the Hakozaki Building into a multi-tenant building to strengthen the revenue base in the real estate business, but we have set a challenging goal of increasing profit by JPY9.7 billion in the logistics business, and plan to steadily implement growth strategies to achieve an overall target of JPY23 billion in the final year of the plan.

The Hakozaki Building has already signed a multi-year lease agreement with IBM for approximately half of its floors and will continue to be used by IBM as its flagship tenant. We have received many inquiries about other floors as well, and we are actively engaged in leasing activities to achieve a level that exceeds the assumptions of the medium-term plan.

## Progress of Medium-Term Management Plan 2022
## Trends in Operating Profit

MITSUI-SOKO GROUP

✓ **Adjusted profit in logistics business remains robust toward achieving numerical targets of the Medium-Term Management Plan 2022**

**<Trends in Operating Profit>**


Unit : Billions of yen

| | 18/3 | 19/3 | 20/3 | 21/3 | 22/3 | 23/3 | 24/3 | 27/3 |
|---|---|---|---|---|---|---|---|---|
| Logistics : Adjusted Profit | 5.9 | 9.8 | 9.1 | 11.5 | 14.8 | 19.3 | 21.1 | 24.5 |
| Real Estate | 5.0 | 5.1 | 5.9 | 5.8 | 5.8 | 5.9 | 5.7 | 2.5 |
| Eliminate/Corporate | -3.9 | -3.0 | -3.2 | -3.2 | -3.6 | -3.9 | -5.3 | -4.0 |
| Adjusted Profit | 7.0 | 12.0 | 11.8 | 14.2 | 17.0 | 21.4 | 21.5 | 23.0 |
| Logistics : Special Factors | - | - | - | 3.5 | 8.9 | 4.6 | - | - |
| Total Consolidated | 7.0 | 12.0 | 11.8 | 17.7 | 25.9 | 26.0 | 21.5 | 23.0 |

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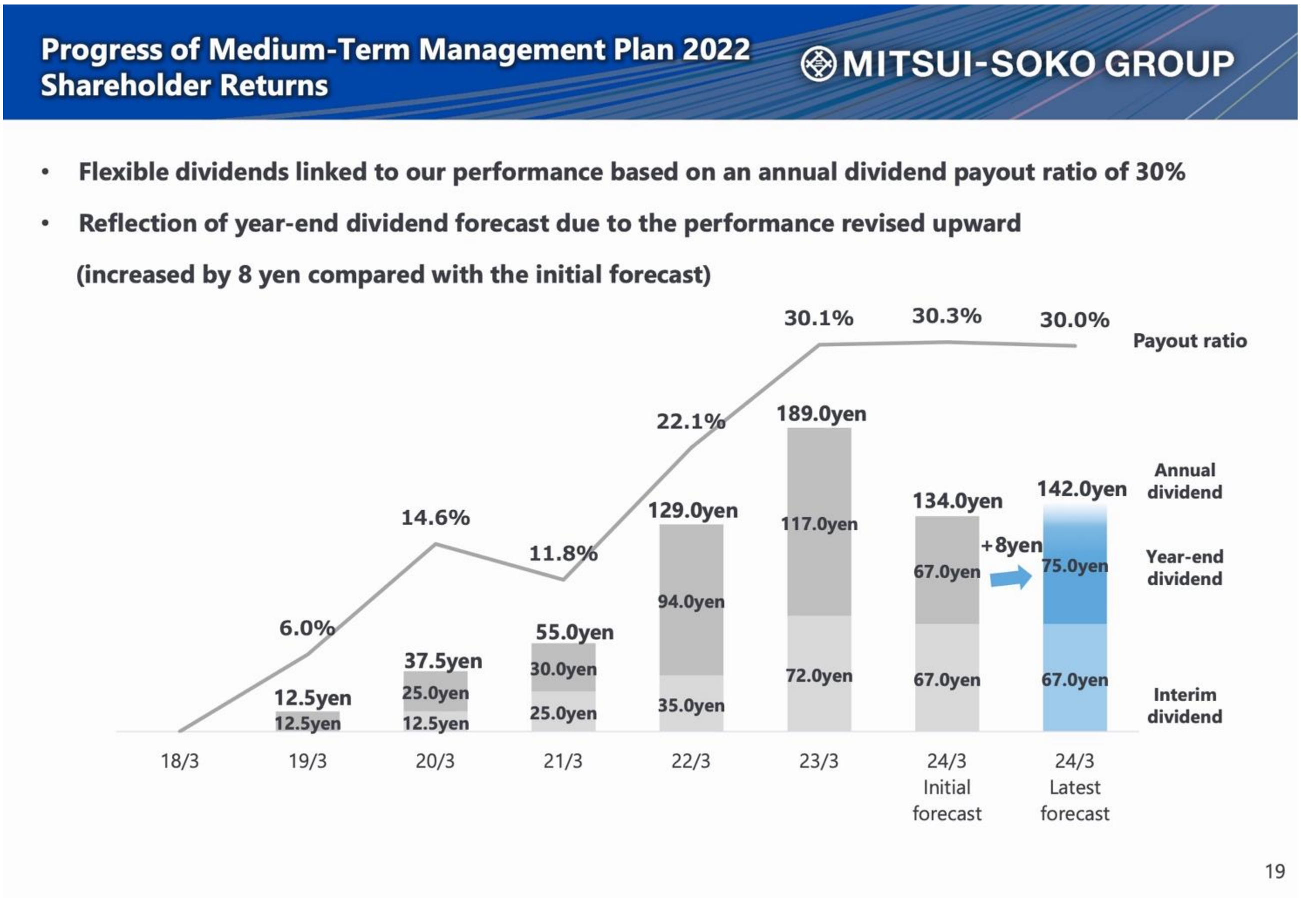
I will now explain the trends in operating profit by segment. Please see page 18.

This fiscal year, as Nakayama explained earlier, in an external environment where special factors have disappeared and cargo movements in the entire logistics market are entering a phase of adjustment, we expect our actual value to grow to JPY21.5 billion, even though operating revenue is sluggish. I feel that we have gained the ability to steadily generate profits.

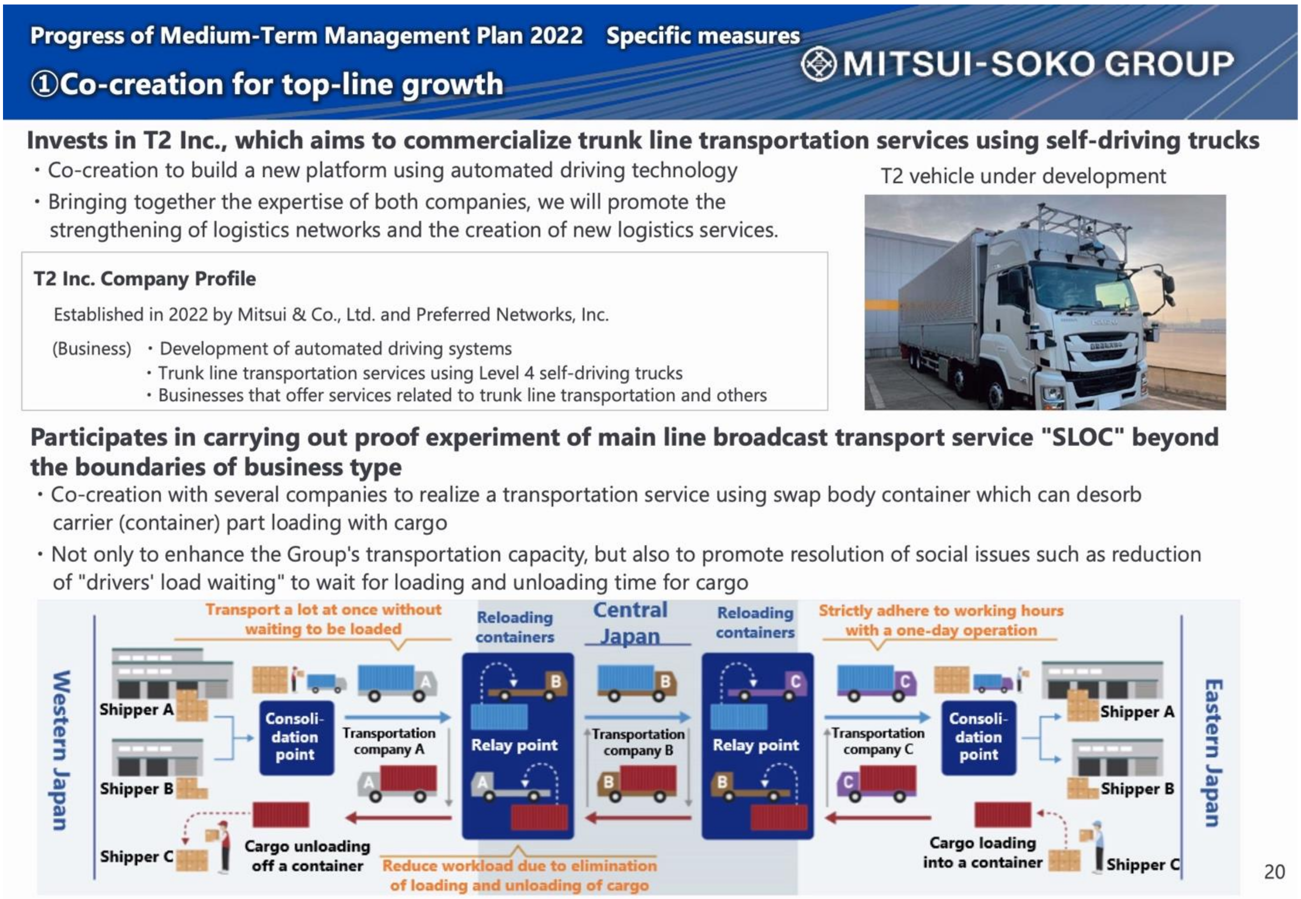
Given that the logistics business is expected to generate JPY10 billion in profits over five years, or JPY2 billion per year by simple calculation, to achieve the numerical targets of the medium-term plan, we recognize that the JPY6.3 billion accumulated by the second year of the medium-term plan is a solid pace.

In addition, corporate expenses were in line with the plan, although there was a temporary increase in expenses due to upfront costs associated with the execution of the DX investment.




Please see page 19. I would like to explain shareholder returns. The Company pays dividends flexibly linked to business performance based on an annual dividend payout ratio of 30% and plans to pay dividends of JPY67 for H1 and JPY142 for the full year this fiscal year.

There is no change from the dividend forecast announced in August, but the dividend will be increased by JPY8 from the initial forecast announced in May.

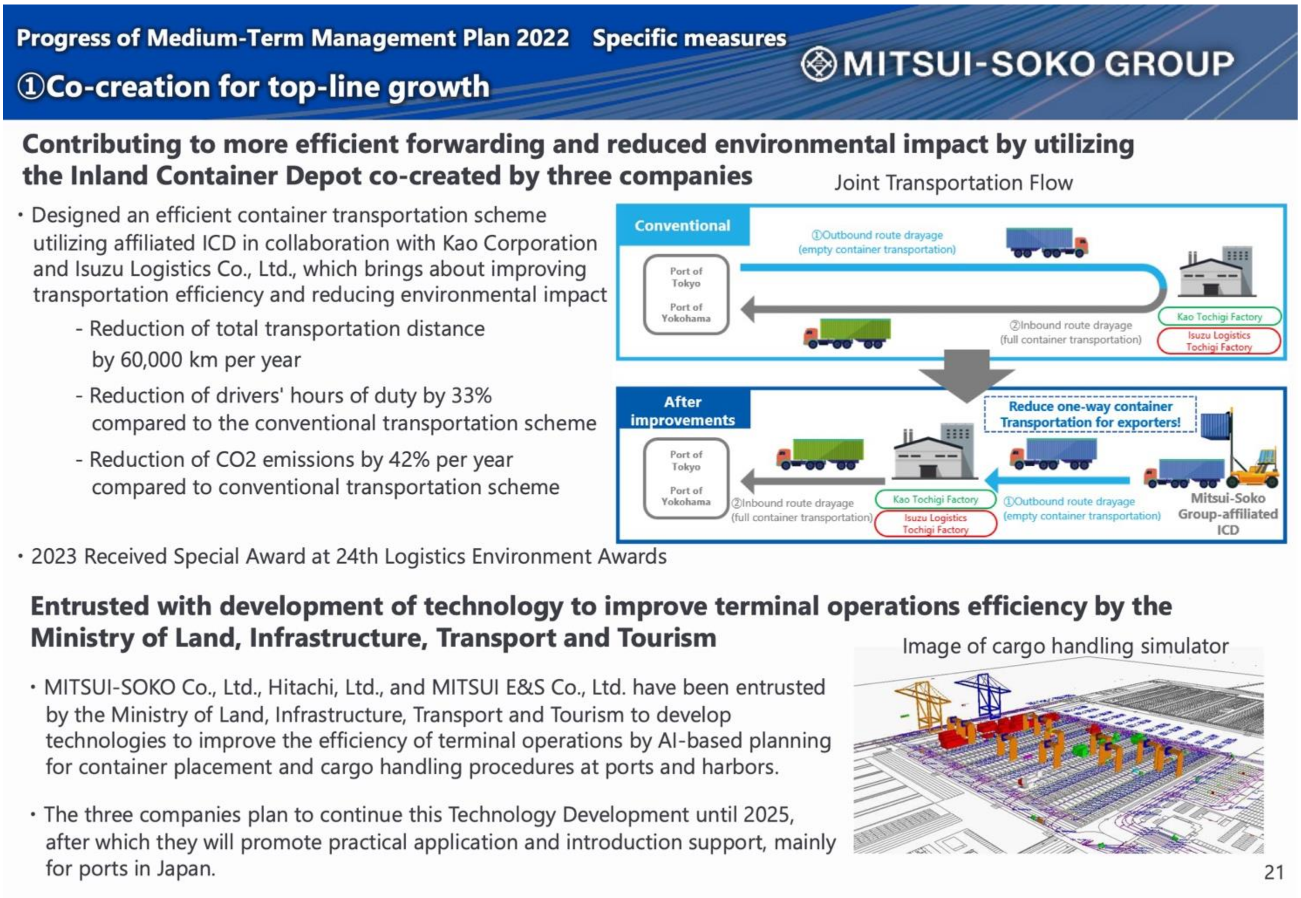



I will continue with an explanation of specific initiatives based on the strategies in the medium-term management plan 2022. Please refer to page 20. I would like to introduce four points regarding our co-creation efforts for sustainable growth, one of our growth strategies. The first two are co-creation measures to build a platform for transportation.

The first is about co-creation with T2, which aims to realize a business of trunk line transportation services using automated driving trucks. In August of this year, the Group invested in the company with the aim of building a new platform using automated driving technology.

The second is about participation in the demonstration of trunk line transportation service SLOC. In the transportation industry, there are issues such as long working hours for drivers and heavy workloads for loading and unloading cargo. To solve these issues, we are continuing to co-create and study with Denso and several other companies to implement relay transportation using swap body containers.

In the future, the situation surrounding land transportation in Japan is expected to become increasingly severe, starting with the 2024 problem, which will lead to a shortage of manpower and drivers. The Group will continue to solve social issues through the construction of various logistics-related platforms and contribute to the expansion of our customers' businesses to further enhance our corporate value.



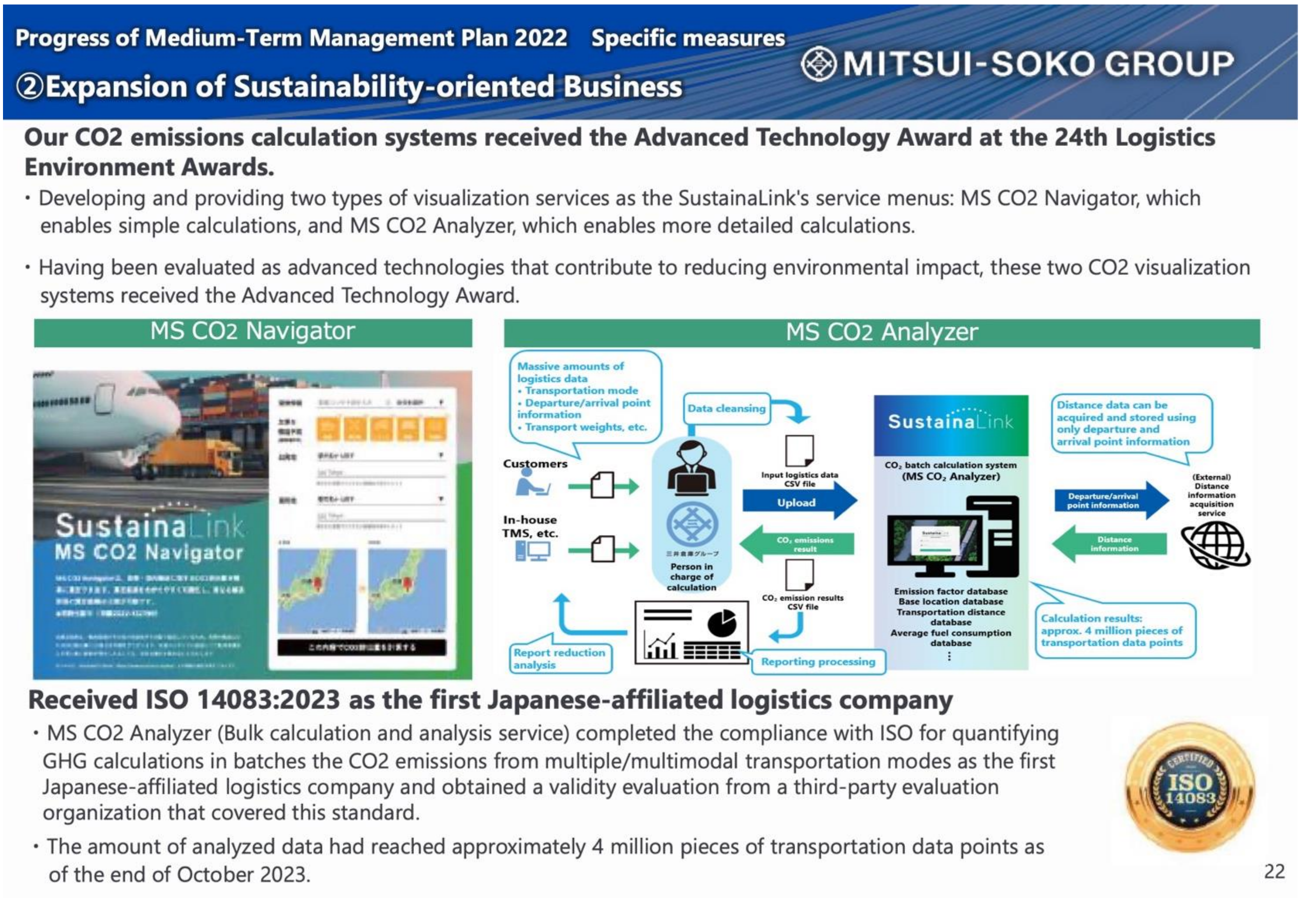

The third is about co-creation with shippers in the area of transportation. The shippers, Kao Corporation and Isuzu Logistics, were facing various issues such as operational efficiency of transportation vehicles and CO2 emissions in transporting containers between Keihin Port and factories in Tochigi Prefecture, respectively.

To solve these issues, we have incorporated container round-use, which utilizes the Inland Container Depot, into the two companies' existing logistics schemes to improve transportation efficiency and reduce environmental impact. This initiative received a special award at the 24th Logistics Environmental Award hosted by the Logistics Federation of Japan and has been highly evaluated by society.

The fourth is a co-creation project using AI in the area of port transportation. We have been commissioned by the Ministry of Land, Infrastructure, Transport and Tourism to develop technology for upgrading terminal operations.

Co-created by Hitachi and Mitsui E&S, this technology utilizes AI to predict the date of container unloading, and based on this, formulate optimal deployment plans and work procedure plans, thereby contributing to the optimization of terminal operations for containers, which account for 99% of Japan's international trade. We will complete the development of this technology by 2025 and promote its practical application and support for its introduction, mainly at ports in Japan.

In addition to the projects I have introduced, we have received inquiries from many other companies, and we will continue to actively pursue co-creation with external parties to achieve sustainable growth.



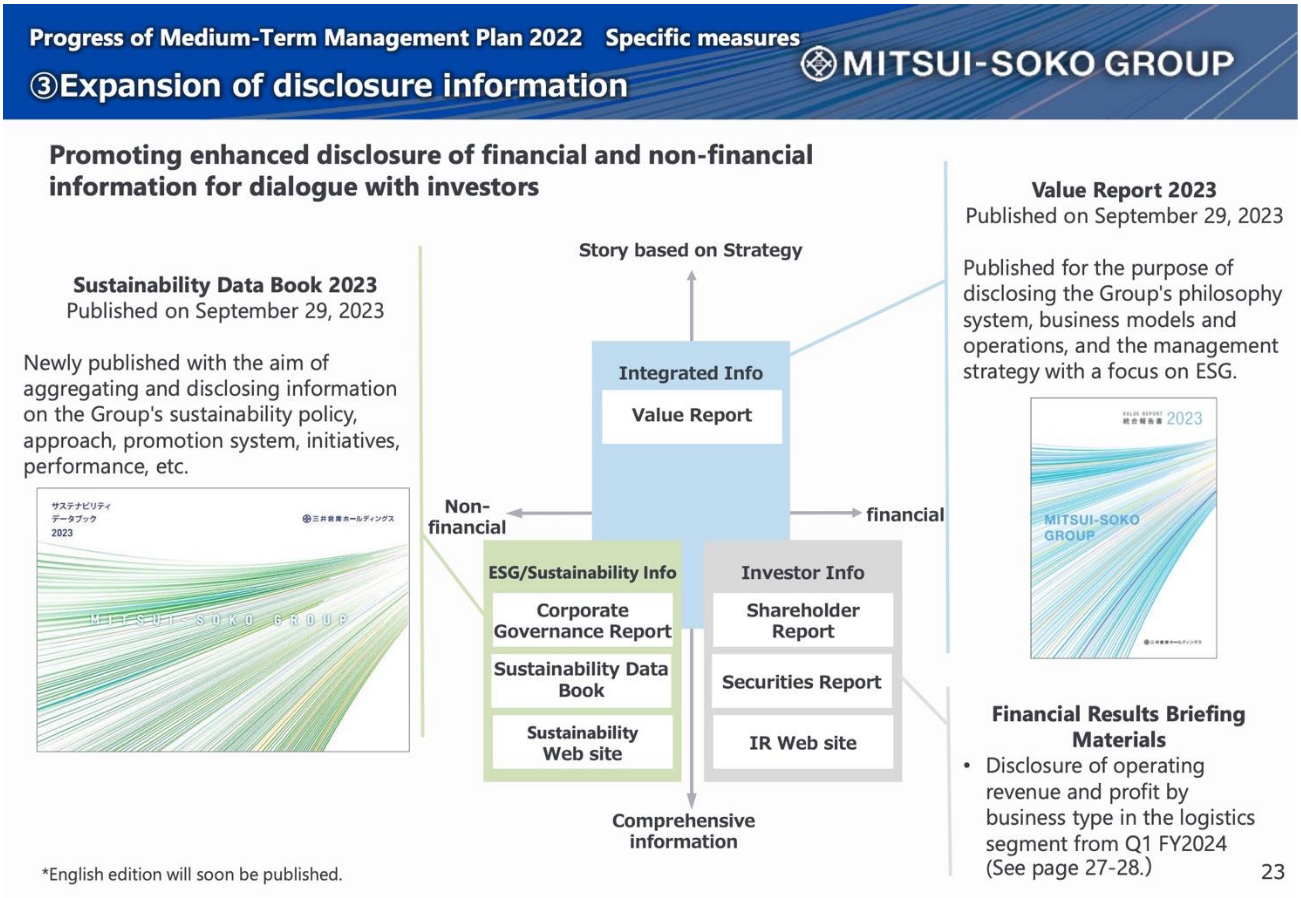

I would like to continue by explaining our efforts in the area of sustainability-oriented business. Please refer to page 22. Due to recent changes in the social environment, many companies are now selecting logistics providers based not only on cost, but also on their ability to respond to overall sustainability issues, such as BCP compliance, labor availability, and CO2 emissions reduction.

The Group was one of the first to develop a specialized service called SustainaLink to address sustainability issues, and we support our customers in building a stable supply chain by offering a full range of services, from CO2 calculation to actual logistics.

As systems for CO2 reduction, we offer MS CO2 Navigator, which allows anyone to easily calculate CO2 emissions from our website, and MS CO2 Analyzer, which enables batch calculation of CO2 emissions from various modes of transportation.

Through these system development efforts, we received the Advanced Technology Award at the 24th Logistics Environment Awards sponsored by Japan Logistics Federation, as it is expected to provide detailed visualization of the effects of improvements in decarbonized logistics. Regarding MS CO2 Analyzer, we became the first Japanese logistics company to complete ISO compliance regarding the quantification of GHG emissions during transportation and received a validity evaluation from a third-party evaluation organization.

With the reliability of our system as our strength, we have received many inquiries about these CO2 calculation services, and as of the end of October 2023, we have calculated more than 4 million cases of CO2 emissions. In the future, we will continue to respond to the needs for CO2 calculations, leading to the acquisition of actual logistics.




Next, I would like to introduce our efforts to enhance disclosure information in IR activities. Please refer to page 23. Management based on dialogue with investors is indispensable for future enhancement of corporate value, and as a prerequisite for such dialogue, we are actively promoting information disclosure, including the Integrated Report.

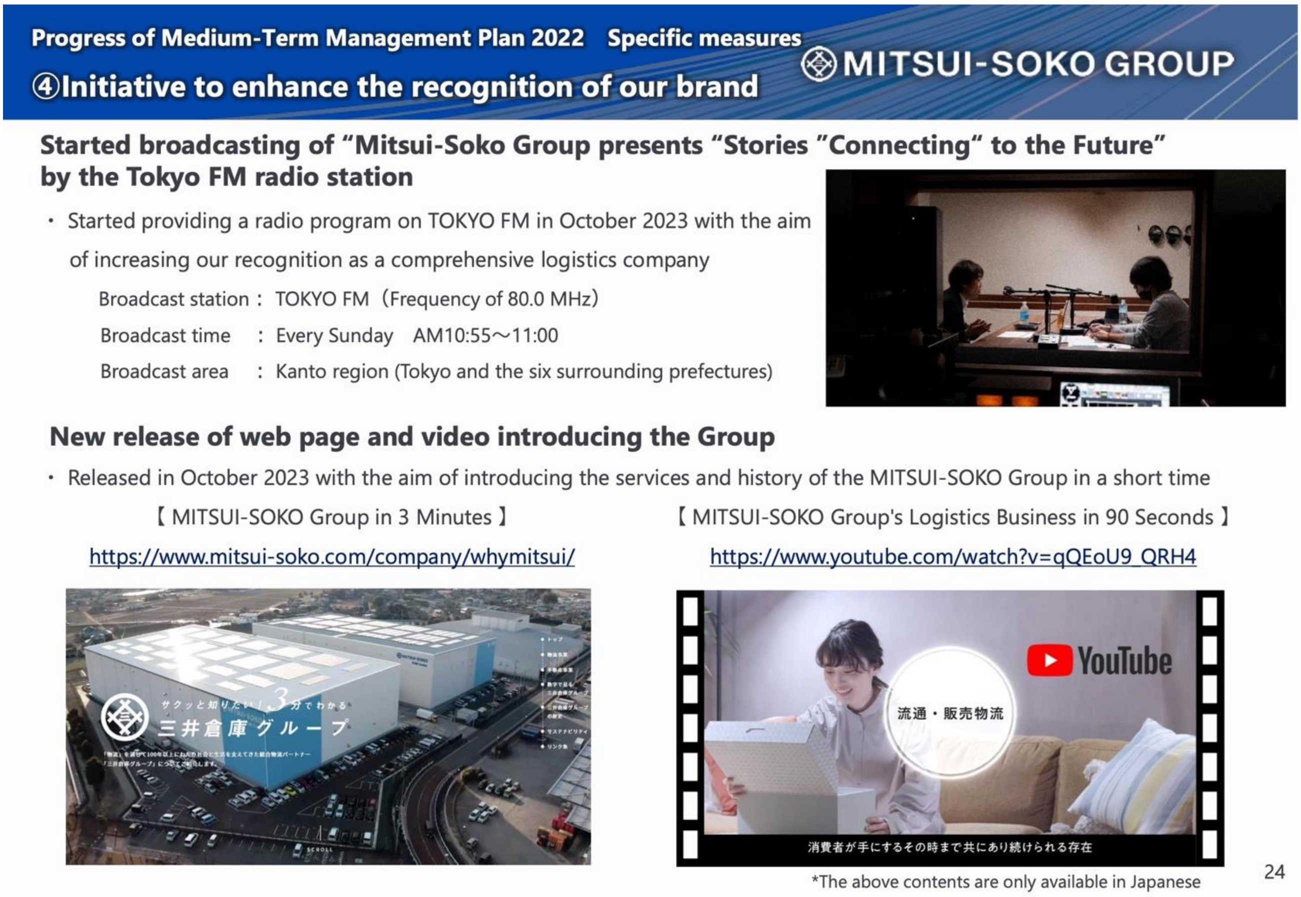
We have been updating and improving the contents of the integrated report every year, and the Value Report 2022 issued last year was selected for the second time by the GPIF as one of the highly improved integrated reports selected by domestic equity management institutions.

In addition, the Value Report 2023 published in September of this year was prepared with a greater awareness of the linkage between management philosophy and strategy, and includes a deeper look at each management strategy, such as growth strategy, financial strategy, human resource strategy, and DX strategy, with the aim of creating value over the medium to long term.

In addition, as a means of expanding the disclosure of more detailed non-financial information, we have recently published a new Sustainability Data Book that summarizes our ESG-related policies and specific initiatives.

Additionally, to enhance financial disclosure, we are disclosing operating revenue and operating profit by business type in the logistics segment. You will see that we have steadily grown as a comprehensive logistics company amidst various changes in the external environment.

We will continue to expand information disclosure to help our stakeholders understand the value of our group, so please take a look.




Finally, I would like to introduce our efforts to enhance the recognition of the Group. Please see page 24.

As I mentioned earlier, our group has built a well-balanced business portfolio covering land, sea, and air as a comprehensive logistics company, but we are still perceived as a company focused on warehousing, and we are working to enhance our recognition as a comprehensive logistics company.

As part of this initiative, we have begun offering radio programs on Tokyo FM from October this year, as well as web pages and YouTube videos to introduce the Group in succession, which we hope you will enjoy.

AAs mentioned above, the progress of the medium-term plan is progressing well, exceeding the plan. We believe that this is a result of the various measures we have taken to improve our earning power, and we feel that our efforts to date have been well received.

Although the industry as a whole is experiencing sluggish growth in operating revenues under the severe external environment, with cargo movements in the logistics market as a whole entering an adjustment phase, we are confident that the Group is steadily accumulating profits and will continue to work on various growth strategies.

In addition to never stopping logistics as social infrastructure, we will continually refine logistics to meet the needs of the ever-changing times. By doing so, we will achieve sustainable growth of our group and meet the expectations of our shareholders, investors, customers, and society.

We would like to thank our investors once again for their support and look forward to your continued support. Thank you very much for listening.

## Question & Answer

**Moderator [M]:** Before we move on to the Q&A session, I would like to start with a question that we often receive after earnings announcements. First question.

**Participant [Q]:** Operating profit is expected to be JPY9.7 billion in H2 compared to JPY11.8 billion in H1. Could you tell me about the factors behind the increase/decrease?

**Nakayama [A]:** The largest factor in the increase/decrease in operating profit from H1 to H2 is related to the airfreight forwarding. The forecast for H2 is JPY1.7 billion, compared to JPY3.4 billion in H1. In H1, we were able to increase margins by controlling procurement. However, competition is intensifying due to the recent decline in freight volumes and the slumping freight market, and as a result, margins are shrinking, and we expect margins to be weaker in H2 than in H1.

**Moderator [M]:** Thank you. And now the next question.

**Participant [Q]:** Please tell us about the progress of investments this fiscal year and your future plans.

**Koga [A]:** In the second year of the medium-term plan, we are projecting investment cash flow of JPY13 billion for the full year, and about one-third, or about JPY4.5 billion, is for DX-related investments. In addition, although not included in investment cash flow, we are also actively investing in other areas of focus in the medium-term plan by utilizing operating leases, for example, establishing a new base in the Kyushu area to expand semiconductor operations and a new base in the Kansai area to expand EC operations.

Although we are not at a stage where we can discuss future investment plans in detail at this time, we are steadily reviewing several growth investment projects as we identify the right ones, and we expect cash outflows to increase toward the latter half of the medium-term plan. In addition to investments in existing logistics facilities and DX, we plan to invest in the Hakozaki Building to make it multi-tenant, and there are no significant changes to the investments planned for the five years of the medium-term management plan 2022 at this time. When we are ready to discuss specifics, we will inform you accordingly.

**Moderator [M]:** Thank you. And now the next question.

**Participant [Q]:** How long do you expect the inventory adjustment phase to last?

**Nakayama [A]:** As explained, many companies have increased their inventory, including in response to BCP, as the coronavirus continued to spread. Regarding the inventory adjustment, at the time we were formulating this year's plan, we expected that the adjustment would be almost complete by the end of September.

On the other hand, looking at the current freight logistics, we can see some signs of a bottoming out, and the situation seems to have leveled off. The outlook for whether or not this situation will reverse in the future varies by region, industry, and company, and we recognize that the future remains uncertain at this point.

**Moderator [M]:** Thank you. And now the next question.

**Participant [Q]:** Can you give us more details on the re-signing with IBM and what is the leasing outlook for the future?

**Koga [A]:** We have reached a formal agreement with IBM Japan and signed a new multi-year so-called lease agreement for about half of the floors. Regarding the surplus space created by this contract, we will carry out value-enhancing work to renovate it into a multi-tenant office building and aim to strengthen our earnings base by diversifying our real estate tenants.

Leasing has already begun, and we have received a great number of inquiries, partly due to the rarity of the large floor space of 1,000 tsubo per floor despite located in the heart of the city. As the contracts are individual, we cannot provide details, but there are some floors where tenant companies have already been decided. The impact on business performance will start in the fiscal year ending March 31, 2025, and will vary depending on the progress of leasing and will be disclosed appropriately in future business forecasts.

**Moderator [M]:** Thank you. We are moving on to the question-and-answer session.

**Hamano [Q]:** Thank you for your explanation. This is Hamano from SMBC Nikko Securities. Thank you. I would like to ask two questions.

First, as for the current evaluation toward the medium-term plan, you explained that the plan is on track upward, but the target for the fiscal year ending March 31, 2027, is JPY23 billion, and from this fiscal year, I think the plan is to increase profits by JPY1.5 billion. As for the Hakozaki Building vacancy, I believe that when the medium-term plan was formulated, all vacancies were expected, but as a result, only half of the buildings were vacated. I would like to hear your thoughts on the necessity of a review based on the current situation.

**Koga [A]:** I think you were asking whether we need to review the medium-term plan, including the third, fourth, and fifth years, which we have explained up to the second year of the medium-term plan.

I have explained to you that we are now in the second year of the medium-term plan, and that the results are higher than expected. However, as I explained, we are trying to increase logistics profits by approximately JPY10 billion over the next five years. It is true that if we assume that the annual figure is JPY2 billion, then we add that to the JPY4 billion, we are doing well getting JPY6.3 billion; However, as Nakayama explained, the logistics industry will change considerably in the next two to three years, given that the overall logistics industry is slowing down from temporary demand. Of course, there is also the 2024 problem.

In that sense, I think it would be premature to make any upward revisions at this stage, so I will report back to you when the time comes. In addition, as I explained earlier, we are currently looking for tenants for the so-called multi-tenant project, so we may revise the plan once we have a certain degree of visibility.

**Hamano [Q]:** On the second point, I would like to ask you to summarize your response to the 2024 issue related to overtime regulations in logistics that you just mentioned and the opportunities and risks. I think the supply chain review is a great opportunity for your company, but I know that you have Marukyo-unyu, which handles actual transportation within your company.

You have explained your initiatives for co-creation and with shippers, but I would like to ask you to summarize the current opportunities and risks with respect to the 2024 problem, including the status of your company's response.

**Koga [A]:** I think your question is specifically about the current efforts, risks, or business opportunities within the Mitsui Warehouse Group regarding the 2024 problem.

Marukyo-unyu, one of our operating companies, owns approximately 1,000 trucks, and at the same time, we also request 1,000 to 2,000 so-called chartered trucks, or subcontractors' trucks per day. This means that approximately 1,000 to 3,000 trucks are transporting goods under our umbrella each day.

The 2024 problem is an issue for next year, but it did not happen just now. It has been talked about for five or six years, and Marukyo-unyu has already completed almost 100% of the 2024 problem keeping overtime within 960 hours per year. Therefore, for Marukyo-unyu, we do not think there will be any negative impact from the 2024 problem.

The problem, however, is the company where we hire trucks. Some relatively small transportation companies are still not fully prepared for the 2024 issue. We are also in discussions with our chartered carriers, and we will be taking action in the future, including asking shippers to raise the prices.

Other than that, the Mitsui Warehouse Group outsources trucks. Naturally, this is an intermediary between us and the shipper, but we are moving forward with measures such as adjusting the shipper's price or jointly shipping items to reduce the distance of transportation.

In addition, how to reduce cargo waiting time as a warehouse is very important. For example, we often see many trucks parked in front of warehouses, and we are working to eliminate this problem, which naturally results in overtime hours for truck drivers, and we are strengthening this area very much.

We are currently working on a reservation system for truck berths at our warehouses, which is proving to be quite effective. This is about the second year of implementation, and we have completed about 60% to 70% of the appointments. We are doing this so that the waiting time is considerably reduced, which can contribute to overtime work for truck drivers.

The 2024 problem is not just a driver problem, is it? In that sense, we would like to do this one by one in our area, and conversely, we would like to link this to business opportunities.

**Hamano [M]:** Thank you.

**Moderator [M]:** Thank you. I would like to move on to the next question from the web.

**Participant [Q]:** With regard to the operating margin, it dropped from the 9% level in Q1 to the 8% level again in Q2, on a quarterly basis, but is it your understanding that Q1 was too strong? Also, the decrease in cargo movement appears to be the main reason, but if so, is the trend for lower margins to continue in H2? Please also tell us about the difference between Q1 and Q2.

**Nakayama [A]:** The change in profit margin is due to the fact that we were able to expand margins by controlling procurement costs, as I mentioned in my explanation of the financial results, but this has gradually become more difficult to do. The reason behind this is that our business needs to be adjusted based on our experience of decreasing cargo volume, sluggish cargo movement, and sluggish shipping and air freight market conditions, which will inevitably intensify competition among carriers.

Naturally, we do not want to simply get caught up in price competition. As the president mentioned, we would like to break through the shrinking margins by proposing logistics solutions that contribute to ESG compliance, especially CO2 reduction and efficiency improvement, for our customers.

**Moderator [M]:** Thank you. And now the next question.

**Participant [Q]:** Is it safe to assume that JPY3.4 billion, double the JPY1.7 billion operating profit plan for H2 for airfreight forwarding, is the approximate amount of profit for the next fiscal year? Do you have any expectations that can be built up further?

**Nakayama [A]:** Regarding the next fiscal year, as I mentioned at the beginning of this presentation, given the current cargo movements and market conditions, there is a great deal of uncertainty regarding the future. Therefore, at this point, I don't think we are in a position to make a clear statement about the JPY3.4 billion in H1, the forecast of JPY1.7 billion in H2, and then back to JPY3.4 billion in the next period. However, to maximize this, we will go back to the basics of business, such as improving efficiency in various areas, purchasing in a timely manner, quickly identifying customer needs, and responding to them speedily.

**Moderator [M]:** Thank you. And now the next question.

**Participant [Q]:** You have already clearly stated your ROE target and return policy, but do you think it is necessary to raise the ROE target and expand returns to further increase corporate value? Please let us know if there are any issues that should be further promoted through dialogue with shareholders or if you have any other impressions.

**Nakayama [A]:** The president has just explained that we are committed to management with an awareness of corporate value and stock price, and we believe it is only natural that we should continue our efforts to maintain and improve a high ROE with an awareness of the cost of capital. However, in the previous period and the period before that, ROE was very high at 20% and 18%, respectively, due to special factors. The level is relatively high for this period as well. While there is no guarantee that this will always continue, we are determined to achieve our medium-term management plan target of 12%.

We recognize that this is one of the premises for considering shareholder returns. As for shareholder returns, as you have been informed, we will consider the results from multiple and comprehensive perspectives, including actual and projected operating cash flow, investment cash flow, investment for growth strategies, and financial balance, and will disclose the results of our consideration to stakeholders at the appropriate time.

**Moderator [M]:** Thank you. And now the next question.

**Participant [Q]:** You expect a temporary drop in profits from the real estate business in the next fiscal year, and based on a payout ratio of 30%, this will be the second consecutive year of significant profit decline and dividend cut guidance, which will inevitably have a negative impact on the stock price. Please tell us what your thoughts are on the matter, based on the results of this May.

**Koga [A]:** If we consider the five years of the medium-term plan, rather than IBM withdrawing from all of them, they were able to remain half, so we are in a situation where we only need to fill half of them as multi-tenanting. However, as you just mentioned, tenants will be halved in the fiscal year ending March 2024. I think new tenants will probably start moving in around the summer of 2024, but I think it is undeniable that profits in the real estate business will decline.

In this sense, a dividend payout ratio of 30% would of course mean lower profits and a lower dividend payout ratio. However, we will continue to examine our dividend policy, as we naturally assume a 30% dividend payout ratio and there are various ways to return profits to shareholders.

**Moderator [M]:** Thank you. And now the next question.

**Participant [Q]:** Please explain why the current forecast for warehousing and port transportation is lower than the previous forecast in terms of revenue and profit, while the forecast for 3PL and LLP is lower than the previous forecast but higher in terms of profit. Also, please explain the factors that lead to the increase in revenue and profit for land transportation in the current full-year forecast compared to the previous full-year forecast.

**Nakayama [A]:** Your question is regarding the 3PL/LLP. If it is firm compared to warehousing and port transportation, what are the factors behind this? Also, what factors contributed to the improvement in profit levels for the transportation industry?

First, as a comprehensive logistics provider, we are diversifying our warehousing and port transportation business, which is our original business, to meet the changing logistics needs of this society, and we are developing a very high value-added business in this field as our service in the form of appropriate logistics design in accordance with changes in commercial distribution, including mail order.

We have received high praise from our customers for our all-in-one approach, in which we go inside the customer and analyze the actual logistics situation, design the logistics appropriately, implement it, and receive appropriate fees for this, resulting in growth in that sector and high profit margins.

Regarding the land transportation industry, there are issues such as the year 2024 problem that you asked about earlier. We have been quick to address this issue, and one of our efforts is to improve efficiency by minimizing unnecessary and labored tasks for our employees.

Then there is delivery efficiency. Instead of loading only one company's cargo on one truck, we load several companies' cargo together if the destinations are close to each other to improve loading efficiency, which reduces costs for our customers and improves our profitability. Of course, there are cases where we ask our customers to bear the burden, such as rising gasoline prices, but we understand that our efforts to improve efficiency and our own efforts have been reflected in our profit figures.

**Moderator [M]:** Thank you. We will close the question-and-answer session. If you have any questions that we were unable to answer, please contact the person in charge of inquiries listed in the financial report.

Finally, we ask for your cooperation in filling out the survey. For those attending via the web, the chat section has been switched to the survey screen. A survey form was distributed to all attendees at the event. We thank you for your cooperation.

This concludes the financial results briefing for Q2 of the fiscal year ending March 2024. Thank you very much for your participation.

[END]

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***Document Notes***

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