

Business Strategy

Temperature-controlled Logistics Business

 Nichirei Logistics Group Inc.
<https://www.nichirei-logi.co.jp/english/index.html>

President's Message



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 President, Nichirei Logistics Group Inc.

Progress of Medium-term Business Plan WeWill 2021

Medium-term Business Plan Main Measures

- Accelerate efforts for operational reforms and introducing a new personnel system
- Develop innovative logistics solutions
- Optimize collection of fees
- Expand overseas business

In the logistics business, net sales increased in FY2021, and operating profit increased for the sixth consecutive year. In the overall market, although cargo handled for some business categories such as restaurants decreased, the quantity of household-use products handled increased both in Japan and overseas as people refrained from going out. We have been able to minimize the impact from the COVID-19 pandemic because of the balance we maintain between household-use and commercial-use cargo.

During the three-year period of our current Medium-term Business Plan WeWill 2021, we are working to achieve four objectives: (1) implement work style reforms through business innovation and the introduction of a new personnel system; (2) establish a business model as a solutions company in the logistics field; (3) receive appropriate payment for the services we provide; and (4) expand overseas business.

Net Sales and Operating Profit by Business Category

(Billions of yen)

Logistics Business	FY2021			Forecast*	FY2022 Plan		
	Result	YoY			YoY		
		Variance	% Change		Variance	% Change	
Net sales	212.3	5.8	3%	224.0	11.7	6%	
Japan	172.2	6.8	4%	180.0	7.8	5%	
Logistics network	102.8	1.9	2%	104.0	1.2	1%	
Regional storage	69.4	4.9	8%	76.0	6.6	10%	
Overseas	36.5	-1.0	-3%	39.5	3.0	8%	
Others	3.6	0.0	1%	4.5	0.9	25%	
Operating profit	13.1	1.3	11%	14.3	1.2	9%	
Japan	12.1	1.2	11%	13.1	1.0	9%	
Logistics network	5.1	1.0	23%	5.4	0.3	6%	
Regional storage	7.0	0.2	3%	7.7	0.7	11%	
Overseas	1.4	0.2	14%	1.6	0.2	12%	
Others	-0.4	-0.1	—	-0.4	0.0	—	

* As of August 3, 2021

• Business Scale

- Total assets: ¥181,136 million
- Group companies: 22 companies in Japan, 11 companies overseas (including 6 affiliates in Japan and 2 overseas)
- Employees (consolidated): 4,277
- Facilities: 114 in Japan, 26 overseas (16 in Europe, 6 in China, 1 each in Thailand and Malaysia)

• Main Facilities

Distribution Centers: Funabashi DC, Higashi-ogishima DC, Heiwajima DC, Daikoku DC, Nagoya Minato DC, Osaka Futo DC, Osaka Shinnanko DC
Cross-Docking Centers: Kawasaki FAZ XD, Kansai XD

• Main Businesses

- Storage
- Transportation
- Cross Docking (XD)
- Overseas business
- Third-party logistics (3PL)
- Engineering services

For objective (1), regarding the business innovation we have targeted, we have been working for the past five years on introducing advanced technologies such as AI and robotics. Regarding our new personnel system, it is facilitating greater freedom in working styles, and the number of women seeking managerial positions, even at sites other than the head office, has increased. For (2), we aim to establish a business model for solving customer issues using our specialized know-how as an LLP.¹ Through this process we are also expanding our conventional 3PL² business and increasing the number of employees with specialized skills. To receive the appropriate payment set forth in (3), we have set company-wide targets for the three-year plan period to work systematically. For (4) expanding overseas business, we have been expanding our business base through ongoing investments for growth and have secured a solid business model. We will continue to concentrate on this area, stepping up our pace and focus with a view toward the post-COVID era.

1. LLP (Lead Logistics Provider): A company that supports the formulation of supply chain management strategies, logistics strategies and business processes for customers, in addition to the logistics operations and management provided in 3PL.

2. 3PL (Third-party Logistics): A logistics business format in which all or part of a company's logistics functions are outsourced to a third-party company with the relevant know-how. 3PL also involves planning, designing and operating logistics from the standpoint of the shipper.

• Advantages of Nichirei Logistics Group Inc.

Nichirei Logistics Group's refrigerated warehouses have the largest total storage capacity in the industry in Japan, and together with its transportation and delivery network, its ability to provide universal service is its greatest advantage. We also have a diverse, exceptionally broad and deep-rooted customer base, with companies ranging from those that operate in a wide area to local enterprises, products ranging from raw materials to finished items, and distribution ranging from upstream to downstream. The way we integrate our customers and cargo enables us to achieve high operation rates in our own network.

We are also an industry leader in terms of solution provision and consulting capabilities in the field of logistics. Our current focus is on consulting, in which we visualize, analyze and evaluate data obtained on-site and elsewhere to co-create logistics systems that are the best fit for the customer's management strategy and sales policies. Human resources who can create valuable user experiences are crucial for strengthening our solution provision capabilities. With this in mind, we are working to enhance training by rank and function. We are also deploying cutting-edge technologies such as AI and robotics to automate operations and enable logistics sites to be operated by anyone, without relying on tacit knowledge.

• Overseas Strategy

Overseas, we will continue to invest for growth and expand our business base. In FY2022, we will expand warehouse facilities in the Port of Rotterdam in the Netherlands to enhance one-stop services for customs clearance, storage and transport, and strengthen our business base at our two facilities in France. Capturing Brexit-related demand for customs clearance and storage will also lead to growth in our port business through coordination among facilities. In Asia, demand for logistics is increasing in China, where we will continue working to handle existing customers and capture new demand, mainly in the area around Shanghai.



Temperature-controlled Logistics Business

• Business Details

Nichirei Logistics Group is the largest logistics group in Japan, consisting of a logistics network business focused on transportation, XD, LLP and 3PL businesses; a regional storage business that operates refrigerated warehouses; an overseas business that has operations in Europe, China and the ASEAN region; and engineering services for all stages from planning and design to maintenance and management of logistics facilities.

We provide the value of universal, one-stop service through high-performance facilities that have the leading capacity in Japan and that offer meticulous services.

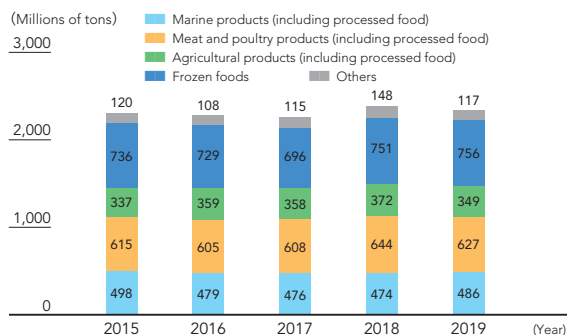
Domestic Refrigerated Warehouse Facility Capacity

Area	Number of Facilities	Capacity (thousands of tons)
Hokkaido	7	88
Tohoku	4	64
Kanto	18	563
Chubu	11	221
Kansai	12	274
Chugoku/Shikoku	12	130
Kyushu	12	175
Total	76	1,515

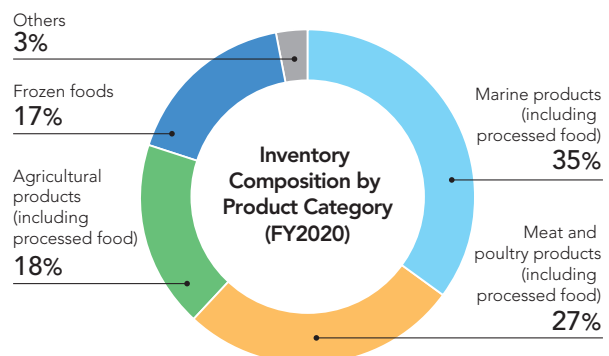
Note: As of March 31, 2021

• Business Details

Quantity of Goods Stored by Product Category in the Domestic Refrigerated Warehousing Industry



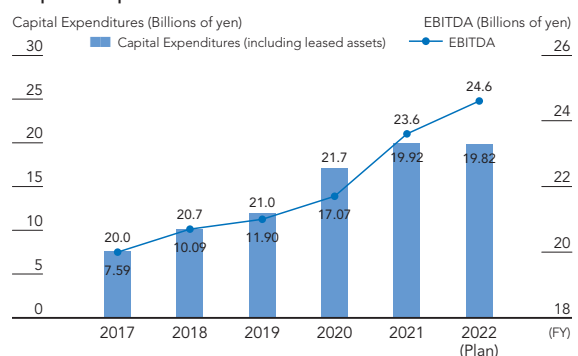
Source: Compiled by Nichirei based on Japan Association of Refrigerated Warehouses documents



• Capital Expenditures

- Expected 5% compound annual growth rate (CAGR) for EBITDA over three years
- Invested in shoring up infrastructure, including investments for long-term facility utilization and eco-friendliness, in addition to investments for growth
- Between March 2017 and March 2021, production capacity increased around 10% in Japan and around 20% overseas.

Capital Expenditures and EBITDA



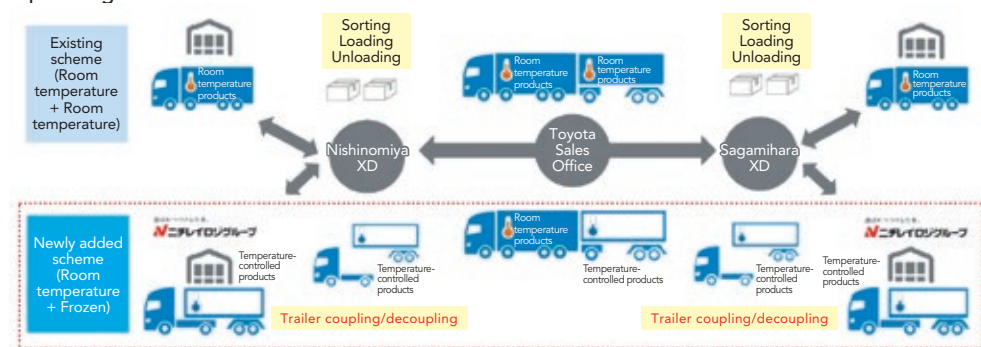
Note: The plan for FY2022 reflects figures announced on May 11, 2021

Close Up

Simultaneous Bulk Transport of Frozen and Room Temperature Products

Nichirei Logistics Group, together with NEXT Logistics Japan, Ltd. (NLJ), started Japan's first simultaneous bulk transport of frozen and room-temperature products using double-trailer trucks in March 2021. These 25-meter double-trailer trucks feature a room-temperature trailer coupled directly to the tractor, towing a refrigerated trailer. These trucks operate between relay points (XD centers) in the Kanto and Kansai regions.

Operating Scheme



Double-trailer truck



Logistics Network Inc. container

Enabling Transport of the Load of Two Conventional Trucks in a Single Trip

By improving transportation and delivery efficiency, double-trailer truck operation can also be used to cope with the problem of Japan's shortage of drivers, which has become serious. Combining frozen and room-temperature products for transport in a double-trailer truck enables one driver to transport the load carried by two conventional trucks. Moreover, simply coupling and decoupling the second trailer from the tractor enables simultaneous transportation of two different loads, leading to a reduction in cargo handling work and waiting time at each XD center and substantially reducing the burden on drivers.

Going forward, we will confirm the benefits of this type of operation in areas such as labor saving and reduction of environmental impact. We also plan to increase the types of cargo that can be bundled and carried to promote the evolution of the high-efficiency trunk-route transport scheme that NLJ is building into a system that can be used by a wider range of shippers and transport companies.