

Highlights of Major Warehouse Companies' Financial Results for Fiscal Year Ended March 2021

The following is Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended March 2021 (FY2020) and earnings forecasts for FY2021 of Japan's seven warehouse companies (collectively, the "Companies"): Mitsubishi Logistics Corporation, MITSUI-SOKO HOLDINGS Co., Ltd. ("MITSUI-SOKO HD"), The Sumitomo Warehouse Co., Ltd., The Shibusawa Warehouse Co., Ltd., Toyo Logistics Co., Ltd., Chuo Warehouse Co., Ltd. and Yasuda Logistics Corporation.

1. Industry Trend

According to the Short-term Survey of Freight Movement in Japan conducted by Nittsu Research Institute and Consulting, Inc. in April 2021, freight movement index (obtained by subtracting the percentage of "Decrease" from the percentage of "Increase" in freight volume) has been improving since the lowest recorded in the April-June period of 2020. Although it was at a low level, comparable to that of after the Lehman's collapse, in the April - June period of 2020 due to an impact of COVID-19 pandemic, it turned upward after the July-September period of 2020. In the April-June period of 2021, the index increased against that in the January - March period of 2021 for all the industries, and is expected to turn positive for the first time in 2.5 years. Despite the fact, presently, re-expansion of the infection is concerned, the freight movement trend should be monitored continuously.

Personnel and outsourcing expenses have been on the rise because of a shortage of manpower including drivers and warehouse workers. To address such cost increases, the warehouse companies are working to adjust freight charges to appropriate levels through requesting cargo owners to increase freight charges or reduce costs through streamlining the operations. In addition, they have been increasing unit price by shifting to high added-value products in the health care area such as pharmaceuticals and medical equipment, and in the archives area including storing documents, and these initiatives are yielding a certain positive effect.

In the real estate leasing business, vacancy rates have been increasing in some areas with a reason of increased number of persons working from home in association with expansion of COVID-19 pandemic. According to the Office Market Data compiled by Miki Shoji Co., Ltd., the average vacancy rate of offices in the Tokyo business districts (five central wards: Chiyoda, Chuo, Minato, Shinjuku and Shibuya) increased 14 consecutive months to 5.65% as of April 2021 (1.56% a year earlier). The average rent has been declining after reaching the peak of 23,014 yen/*tsubo* (approximately 3.3 square meters) as of July 31, 2020 to 21,415 yen/*tsubo* (22,820 yen/*tsubo* a year earlier). Looking back the last 10 years, both the vacancy rate and average rent have been at favorable levels; however, the future trends should be monitored. Despite the fact, no notable movements are seen in the vacancy rate and rent level of the leasing properties held by the warehouse companies at present.

2. Financial Results

For FY2020, combined operating income of the Companies grew 10.4% from a year earlier to 50 billion yen. However, combined result of six companies excluding MITSUI-SOKO HD, which substantially increased the income (an increase of 49.6% from a year earlier), showed a slight decrease of 3.4% from a year earlier. By business segment, operating income (before consolidation adjustments) of the logistics business increased 15.7% from a year earlier to 41.8 billion yen, and that of real estate business decreased 3.7% from a year earlier to 26.7 billion yen. The logistics business was impacted by sluggish cargo movements centering on import cargos in association with the COVID-19 pandemic; however, degree of the impact of the pandemic varied as e-commerce related products and stay home-related consumer products such as pharmaceuticals and home appliances were strong. An increase in demand for air cargos and rising freight charges backed by the shortage of ocean containers seemed to work positively, and profits have been steady. In the real estate business, there were no significant changes in the vacancy rate of existing leasing properties held by the

Companies; however, earnings were impacted by a decrease in the number of condominiums sold and decreased real estate leasing income in relation to temporary closing of some commercial facilities for some companies. By company, MITSUI-SOKO HD and Chuo Warehouse increased income, and the five companies, Mitsubishi Logistics, Sumitomo Warehouse, Shibusawa Warehouse, Toyo Logistics and Yasuda Logistics, decreased income. MITSUI-SOKO HD substantially increased the income due to increased cargo handling volume of home appliance manufactures in relation to expanded consumption by people staying home, etc., air cargos as well as integrated solution services-related logistics. For the five companies, which decreased income, the rate of decrease remained small in general due to increased handling volume of cargos through establishing new bases and commencing new transactions, and also support from the real estate business, a stable income source.

On the financial front, both of the combined indicators for the Companies as of March 31, 2021 improved as shown that equity ratio improved to 51.8% from 49.8% from a year earlier and DER improved to 0.53x from 0.61x from a year earlier. Equity capital increased to 760.6 billion yen from 668.3 billion yen a year earlier due to an increase in valuation difference on available-for-sale securities in relation to recovering stock market conditions in addition to accumulation of retained earnings. While capital investments were made for constructing or acquiring new warehouses, interest bearing debt decreased to 404.1 billion yen from 406.7 billion yen a year earlier due partly to disposing fixed assets and investment securities. The Companies have been maintaining favorable financial structures as they make investment in the businesses and provide shareholders with return under the certain financial discipline in general. MITSUI-SOKO HD, which is rebuilding the financial base, has substantially improved equity ratio and DER at 26.3% from 20.8% a year earlier and 1.72x from 2.56x a year earlier respectively due to holding down non-essential investments or investments, which do not require urgency, disposing strategic-holding securities and others.

3. Highlights for Rating

Combined operating income of the Companies is projected to decrease 2.0% from a year earlier to 49 billion yen for FY2021. However, the five companies, excluding MITSUI-SOKO HD, which substantially increased income for the previous fiscal year, and Yasuda Logistics, which is making upfront investments, expect to increase income. Although the time of the end COVID-19 pandemic is still unforeseeable, moderate recovery can be expected both for domestic and international cargos along with progress of vaccinations and others. JCR views that the performance of the logistics business will likely be steady in general as cargo handling volume will increase due to commencement of operation of new facilities and others in addition to recovering cargo movements from the turmoil of the pandemic. For the real estate business, JCR continuously expects stable operation of properties held.

By company, MITSUI-SOKO HD projects operating income to decrease 25.3% from a year earlier to 13.2 billion yen for FY2021. As shown, the rate of decrease is large. This was because SG&A expense, which substantially decreased due to air cargo handling volume, a surge in air freight charges and restricted economic activities attributable to shortage of ocean containers occurred in the previous fiscal year, will be back to the normal level. Excluding these impacts of the pandemic, the profit level is on increase compared to that for FY2019, pre-pandemic period. Yasuda Logistics also expects operating income to decrease due mainly to an increase in operating expense in association with expansion of logistics facilities and reinforcing existing facilities, and others. Despite the fact, operation of the new facilities is smooth and earnings base is being reinforced. On the other hand, Sumitomo Warehouse expects a substantial increase in income to 13.5 billion yen, up 23.9% from a year earlier. It expects full year operation of the three new warehouses, which commenced operation in the previous fiscal year, and also an improvement in earnings of the marine transportation business in relation to recovery in transportation volume and freight charges, which hover at a high level, etc.

The Companies generally regard enhancing the business base of the logistics business as the core of the medium-term management plan, and thus attention is paid to an improvement in the earnings capacity of the business. To date, the Companies were working to collect appropriate charges in the event where costs were rising, including personnel and outsourcing expenses. Despite the fact, there is a limitation for shippers to accept increased logistics costs; therefore, unit price negotiations may become tough in the future. In order to maintain sustainable growth of the logistics business, it is important to expand high added-value businesses and overseas bases. The Companies have been focusing on handling cargos such as pharmaceuticals and documents, which require advanced storage technologies. The warehouses, which handle such cargos, require high expertise including appropriate temperature and air conditioning controls according to product features, securing necessary specialists and obtaining permissions / licenses; therefore, the unit prices of storage will tend to be higher. In addition, the Companies have been pursuing overseas development by setting up new bases and acquiring local businesses in China and Southeast Asian countries. While domestic

logistics demand is expected to decline due to a decrease in population, etc., supply chain revisions are being carried out at full scale due to the U.S.-China trade conflict and the pandemic, and significance of international transportation will increase further. JCR will therefore keep an eye on progress in overseas business expansion and profitability going forward.

JCR is also looking at capital spending and M&A activities needed for earnings growth, as well as their impact on the financial structure. Under the medium-term management plan, Mitsubishi Logistics intends to spend 100 billion yen in FY2019 through FY2021, and Sumitomo Warehouse intends to spend 50 billion yen in FY2020 through FY2022 and Shibusawa Warehouse intends to spend between 15 billion yen and 20 billion yen in FY2021 through FY2023 to construct new and additional warehouses, and develop real estate properties. They will observe certain financial discipline in executing the investments but may incur some financial burden temporarily. Close attention will thus be paid to whether they can improve the financial structure in the medium run by boosting earnings capacity with such investments.

Hiroyoshi Otsuka, Naoki Muramatsu

(Chart 1) Consolidated Business Performance of Seven Warehouse Companies

(JPY 100 mn)

		Consolidated		Logistics		Real Estate	
		Operating Revenue	Operating Income	Operating Revenue	Operating Income	Operating Revenue	Operating Income
Mitsubishi Logistics (9301)	FY2019	2,290	121	1,897	71	411	108
	FY2020	2,137	117	1,792	72	361	100
	FY2021F	2,270	126	1,870	84	418	97
MITSUI-SOKO HD (9302)	FY2019	2,410	118	2,319	91	98	58
	FY2020	2,535	176	2,446	149	96	58
	FY2021F	2,370	132		112		57
Sumitomo Warehouse (9303)	FY2019	1,917	111	1,826	106	107	54
	FY2020	1,920	109	1,828	103	107	55
	FY2021F	2,000	135	1,907	131	109	56
Shibusawa Warehouse (9304)	FY2019	668	39	610	28	58	30
	FY2020	653	36	595	25	59	29
	FY2021F	670	40	613	28	59	29
Toyo Logistics (9306)	FY2019	296	12	290	16	5	2
	FY2020	276	10	270	17	5	2
	FY2021F	277	10				
Chuo Warehouse (9319)	FY2019	264	15	264	15		
	FY2020	259	17	259	17		
	FY2021F	240	17				
Yasuda Logistics (9324)	FY2019	466	34	396	32	75	22
	FY2020	477	32	417	32	65	21
	FY2021F	515	29				
Total of seven companies	FY2019	8,314	453	7,606	361	758	277
	FY2020	8,259	500	7,610	418	696	267
	FY2021F	8,342	490				

(Source: Prepared by JCR based on financial materials of above companies)

Notes:

* Sumitomo Warehouse's logistics business includes marine transportation.

(Chart 2) Financial Indicators of Seven Warehouse Companies

(JPY 100 mn, %, times)

		FY2016	FY2017	FY2018	FY2019	FY2020
Mitsubishi Logistics (9301)	Equity Capital	2,742	2,917	2,961	2,833	3,235
	Interest-bearing Debt	655	719	867	960	1,073
	Equity Ratio	63.0	63.1	61.4	60.5	60.4
	Interest-bearing Debt/EBITDA	2.35	2.56	2.95	3.17	3.59
	Debt/Equity Ratio	0.24	0.25	0.29	0.34	0.33
MITSUI-SOKO HD (9302)	Equity Capital	377	440	474	497	626
	Interest-bearing Debt	1,688	1,576	1,424	1,270	1,078
	Equity Ratio	14.1	16.8	18.8	20.8	26.3
	Interest-bearing Debt/EBITDA	9.46	9.02	6.47	5.80	3.84
	Debt/Equity Ratio	4.54	3.58	3.01	2.56	1.72
Sumitomo Warehouse (9303)	Equity Capital	1,710	1,852	1,811	1,652	1,889
	Interest-bearing Debt	723	867	723	928	875
	Equity Ratio	55.9	54.2	56.2	51.9	54.1
	Interest-bearing Debt/EBITDA	3.75	4.27	3.83	4.21	3.91
	Debt/Equity Ratio	0.43	0.47	0.40	0.56	0.46
Shibusawa Warehouse (9304)	Equity Capital	408	419	422	435	479
	Interest-bearing Debt	360	365	363	363	385
	Equity Ratio	42.9	43.4	43.1	44.0	45.9
	Interest-bearing Debt/EBITDA	5.65	5.54	5.17	4.98	5.34
	Debt/Equity Ratio	0.89	0.87	0.86	0.84	0.80
Toyo Logistics (9306)	Equity Capital	178	187	192	198	211
	Interest-bearing Debt	126	139	136	133	139
	Equity Ratio	45.9	45.8	46.2	48.1	49.3
	Interest-bearing Debt/EBITDA	5.66	5.91	5.10	4.85	5.45
	Debt/Equity Ratio	0.77	0.75	0.71	0.67	0.66
Chuo Warehouse (9319)	Equity Capital	365	385	384	384	403
	Interest-bearing Debt	41	38	36	51	54
	Equity Ratio	80.7	81.4	81.8	79.6	79.3
	Interest-bearing Debt/EBITDA	1.37	1.24	1.18	1.62	1.64
	Debt/Equity Ratio	0.12	0.10	0.09	0.13	0.14
Yasuda Logistics (9324)	Equity Capital	609	660	662	682	759
	Interest-bearing Debt	247	280	286	359	433
	Equity Ratio	55.8	55.0	54.6	53.1	51.6
	Interest-bearing Debt/EBITDA	4.34	5.08	4.01	4.83	5.57
	Debt/Equity Ratio	0.42	0.43	0.43	0.53	0.57
Total	Equity Capital	6,391	6,862	6,910	6,683	7,606
	Interest-bearing Debt	3,843	3,986	3,836	4,067	4,041
	Equity Ratio	49.3	50.0	50.6	49.8	51.8
	Interest-bearing Debt/EBITDA	4.66	4.78	4.25	4.29	3.99
	Debt/Equity Ratio	0.60	0.58	0.56	0.61	0.53

(Source: Prepared by JCR based on financial materials of above companies)

<Reference>

Issuer: Mitsubishi Logistics Corporation

Long-term Issuer Rating: AA Outlook: Stable

Issuer: MITSUI-SOKO HOLDINGS Co., Ltd.

Long-term Issuer Rating: A- Outlook: Stable

Issuer: The Sumitomo Warehouse Co., Ltd.

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: The Shibusawa Warehouse Co., Ltd.

Long-term Issuer Rating: A- Outlook: Stable

Issuer: Toyo Logistics Co., Ltd.

Long-term Issuer Rating: BBB Outlook: Stable

Issuer: Chuo Warehouse Co., Ltd.

Long-term Issuer Rating: BBB+ Outlook: Stable

Issuer: Yasuda Logistics Corporation

Long-term Issuer Rating: A- Outlook: Stable

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