

## Highlights of Major Warehouse Companies' Financial Results for Fiscal Year Ended March 2022

The following are 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 2022 (FY2021) and earnings forecasts for FY2022 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 released by NX Logistics Research Institute and Consulting, Inc. in April 2022, 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 to June period of 2020. Although it fell to the low level comparable to that following the Lehman's collapse in said period due to the COVID crisis, it turned upward after that and has been positive since the April to June period of 2021. This trend is expected to continue into the April to June period of 2022 but may be negatively affected by the Ukraine conflict.

Personnel and outsourcing expenses have been on the rise because of a shortage of manpower including drivers and warehouse workers. According to the "Report on the Survey of Logistics Costs for FY2021" released by the Japan Institute of Logistics Systems in April 2022, the ratio of logistics costs to net sales in FY2021 marked the highest in the past 20 years at 5.70%, up 0.32 points from the previous year. Major contributing factors include increases in truck fares and cargo handling costs due to constant labor shortages, etc. in recent years. It can be concluded that shippers have become more understanding of logistics companies' request for price increases because of the shortage of manpower than before. To address recent years' cost increases, warehouse companies have worked to bring freight charges to appropriate levels by, for instance, requesting shippers to accept a raise in such charges and to reduce costs gradually by streamlining operations. They are also striving to increase unit prices of storage by expanding the handling of high value-added cargo in the health care area such as pharmaceuticals and medical equipment and in the archives area such as document storage.

In the real estate leasing business, vacancy rates are rising, while the average rent is declining, especially in urban areas, partly because working from home has taken root amid the COVID crisis. According to the Office Market Data released 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) as of April 2022 was 6.38%, as opposed to 1.56% for April 2020, and the average rent was 20,328 yen/*tsubo* (approximately 3.3 square meters), as opposed to 22,820 yen/*tsubo* two years earlier, both of which are worse than the pre-COVID levels. As such, the environment surrounding office buildings is becoming increasingly uncertain, but there are no noticeable changes in vacancy rates and rent levels of the properties held by the warehouse companies at this point.

### 2. Financial Results

Operating income of the Companies combined grew sharply in FY2021, jumping 64.8% over the year to 82.4 billion yen. By segment, the income (before consolidation adjustments) improved 80.2% and 0.3% to 75.3 billion yen and 26.7 billion yen for the logistics business and the real estate business, respectively. In the logistics business, growth in the international transportation area, including an increase in air cargo demand because of a shortage of ocean containers and soaring marine and air freight rates, helped boost the income, which was also positively affected by recovery in cargo movements from the COVID crisis. In the real estate business, despite a rise in vacancy rates and decline in the average rent especially in urban areas, occupancy rates remained mostly high for the major properties of the Companies even in the midst of the COVID crisis. By company, the income rose for six companies, excluding Yasuda Logistics that is faced with upfront investment requirements. The increase in the income was particularly

notable for zaibatsu-affiliated warehouse companies with international transportation accounting for a large percentage.

On the financial front, equity ratio and debt/equity ratio as of March 31, 2022 both improved to 52.5% and 0.48x, from 51.8% and 0.53x a year earlier. Equity capital as of the same date increased to 818.1 billion yen from 760.6 billion yen a year earlier thanks to profit accumulation, etc. Interest-bearing debt decreased to 394.0 billion yen from 404.1 billion yen a year earlier as growth investments, including the establishment of new logistics facilities and acquisition of real estate for lease, almost stayed within the range of operating cash flow. The Companies maintain the favorable financial structures as they make investment in businesses and shareholder returns under the certain financial discipline, by and large. MITSUI-SOKO HD, which has worked to rebuild the financial base, has substantially improved equity ratio to 30.8% and debt/equity ratio to 1.18x, from 26.3% and 1.72x a year earlier, thanks in part to an increase in retained earnings backed by strong performance and a decrease in interest-bearing debt with restraint of non-essential investments.

### 3. Highlights for Rating

Operating income of the Companies combined for FY2022 is projected to drop 10.7% from FY2021 to 73.6 billion yen, on the assumption that supply chain chaos triggered by factors like the shortage of ocean containers, which were the main reason for the sharp income growth in the previous year, will gradually calm down toward the second half. It is still unpredictable when the COVID crisis will tail off, and the deterioration of the Ukraine situation, soaring resource prices, lockdowns associated with the zero-COVID policy in China and so forth have become risk factors behind the worldwide economic downturn; therefore, future developments must be closely watched. That said, given that cargo movements in Japan are picking up gradually and also with the launch of the new logistics facilities where high value-added cargo will mainly be handled, JCR assumes that overall performance will remain strong. In the real estate business, the Companies expect the stable occupancy of their properties to continue, which will probably underpin the business results.

By company, five companies, excluding Shibusawa Warehouse and Chuo Warehouse, forecast a lower income. Mitsubishi Logistics, MITSUI-SOKO HD and Sumitomo Warehouse anticipate a huge decline mainly because of the elimination of positive effects of the global supply chain chaos in the international transportation area (including the marine transportation business for Sumitomo Warehouse). That said, domestic logistics operations, including warehousing and land transportation, are expected to remain robust and will likely achieve high profitability compared to the pre-COVID level. Yasuda Logistics expects operating income to drop for two years in a row mainly due to an increase in upfront costs for the expansion of logistics facilities, reinforcement of existing facilities and so forth, but its operating revenue is likely to keep growing with the launch of new facilities, etc.

In the financial aspect, JCR is looking at the implementation of growth investments, including M&As, and consequent changes in the financial balance. Under the medium-term management plan, Mitsubishi Logistics intends to spend 130 billion yen in FY2022 through FY2024; MITSUI-SOKO HD 130 billion yen in FY2022 through FY2026; Sumitomo Warehouse 50 billion yen in FY2020 through FY2022; Shibusawa Warehouse 25 billion yen to 35 billion yen in FY2021 through FY2023; and Yasuda Logistics 36 billion yen in FY2022 through FY2024 to construct new and additional warehouses, carry out real estate development projects, etc. It is also assumed that the Companies will execute M&A deals aimed at expanding the logistics networks and acquisition of digital technologies. While they all maintain the policy of observing certain financial discipline, they may temporarily incur some financial burden. In such a case, JCR will check on the prospects for investment recovery and monitor whether they can improve the financial structure in the medium run.

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
	FY2021	2,572	181	2,152	137	436	103
	FY2022F	2,500	168	2,143	129	373	95
MITSUI-SOKO HD (9302)	FY2019	2,410	118	2,319	91	98	58
	FY2020	2,535	176	2,446	149	96	58
	FY2021	3,010	259	2,922	237	95	57
	FY2022F	2,900	210	2,809	197	95	56
Sumitomo Warehouse (9303)	FY2019	1,917	111	1,826	106	107	54
	FY2020	1,920	109	1,828	103	107	55
	FY2021	2,314	277	2,239	274	106	52
	FY2022F	2,110	252	2,022	251	107	52
Shibusawa Warehouse (9304)	FY2019	668	39	610	28	58	30
	FY2020	653	36	595	25	59	29
	FY2021	717	45	660	33	58	30
	FY2022F	718	46	660	34	58	30
Toyo Logistics (9306)	FY2019	296	12	290	16	5	2
	FY2020	276	10	270	17	5	2
	FY2021	283	13	278	20	5	2
	FY2022F	270	11				
Chuo Warehouse (9319)	FY2019	264	15	264	15		
	FY2020	259	17	259	17		
	FY2021	239	18	239	18		
	FY2022F	257	22	257	22		
Yasuda Logistics (9324)	FY2019	466	34	396	32	75	22
	FY2020	477	32	417	32	65	21
	FY2021	530	29	468	31	67	20
	FY2022F	580	27				
Total	FY2019	8,314	453	7,606	361	758	277
	FY2020	8,259	500	7,610	418	696	267
	FY2021	9,667	824	8,960	753	770	267
	FY2022F	9,335	736				

Note: Sumitomo Warehouse's logistics business includes marine transportation.

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

(Chart 2) Financial Indicators of Seven Warehouse Companies

(JPY 100 mn, %, times)

		FY2017	FY2018	FY2019	FY2020	FY2021
Mitsubishi Logistics (9301)	Equity Capital	2,917	2,961	2,833	3,235	3,440
	Interest-bearing Debt	719	867	960	1,073	1,028
	Equity Ratio	63.1	61.4	60.5	60.4	61.2
	Interest-bearing Debt/EBITDA	2.56	2.95	3.17	3.59	2.74
	Debt/Equity Ratio	0.25	0.29	0.34	0.33	0.30
MITSUI-SOKO HD (9302)	Equity Capital	440	474	497	626	794
	Interest-bearing Debt	1,576	1,424	1,270	1,078	939
	Equity Ratio	16.8	18.8	20.8	26.3	30.8
	Interest-bearing Debt/EBITDA	9.02	6.47	5.80	3.84	2.62
	Debt/Equity Ratio	3.58	3.01	2.56	1.72	1.18
Sumitomo Warehouse (9303)	Equity Capital	1,852	1,811	1,652	1,889	2,034
	Interest-bearing Debt	867	723	928	875	860
	Equity Ratio	54.2	56.2	51.9	54.1	54.4
	Interest-bearing Debt/EBITDA	4.27	3.83	4.21	3.91	2.13
	Debt/Equity Ratio	0.47	0.40	0.56	0.46	0.42
Shibusawa Warehouse (9304)	Equity Capital	419	422	435	479	533
	Interest-bearing Debt	365	363	363	385	358
	Equity Ratio	43.4	43.1	44.0	45.9	48.9
	Interest-bearing Debt/EBITDA	5.54	5.17	4.98	5.34	4.45
	Debt/Equity Ratio	0.87	0.86	0.84	0.80	0.67
Toyo Logistics (9306)	Equity Capital	187	192	198	211	221
	Interest-bearing Debt	139	136	133	139	136
	Equity Ratio	45.8	46.2	48.1	49.3	51.3
	Interest-bearing Debt/EBITDA	5.91	5.10	4.85	5.45	4.83
	Debt/Equity Ratio	0.75	0.71	0.67	0.66	0.61
Chuo Warehouse (9319)	Equity Capital	385	384	384	403	410
	Interest-bearing Debt	38	36	51	54	53
	Equity Ratio	81.4	81.8	79.6	79.3	76.9
	Interest-bearing Debt/EBITDA	1.24	1.18	1.62	1.64	1.57
	Debt/Equity Ratio	0.10	0.09	0.13	0.14	0.13
Yasuda Logistics (9324)	Equity Capital	660	662	682	759	745
	Interest-bearing Debt	280	286	359	433	561
	Equity Ratio	55.0	54.6	53.1	51.6	46.9
	Interest-bearing Debt/EBITDA	5.08	4.01	4.83	5.57	7.21
	Debt/Equity Ratio	0.43	0.43	0.53	0.57	0.75
Total	Equity Capital	6,862	6,910	6,683	7,606	8,181
	Interest-bearing Debt	3,986	3,836	4,067	4,041	3,940
	Equity Ratio	50.0	50.6	49.8	51.8	52.5
	Interest-bearing Debt/EBITDA	4.78	4.25	4.29	3.99	2.90
	Debt/Equity Ratio	0.58	0.56	0.61	0.53	0.48

Note: Before the evaluation of equity content of subordinated loans for Yasuda Logistics' equity capital and interest-bearing debt

Source: Prepared by JCR based on the 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: Positive

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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