

Highlights of Warehouse Companies' Financial Results for Fiscal Year Ended March 2023

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 2023 (FY2022) and earnings forecasts for FY2023 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 2023, freight movement index (obtained by subtracting the percentage of "Decrease" from the percentage of "Increase" in freight volume) is on the decline. Having hit bottom at negative 65 in the April to June period of 2020—immediately following the outbreak of COVID-19, it had been improving until the January to March period of 2022 when it declined due in part to the implementation of priority measures to prevent the spread of COVID infections and has been negative since the April to June period of 2022. In the January to March period of 2023, it fell 9 points from the previous quarter to negative 12 as stagnant freight movement due to soaring material and product prices became evident. Freight movement is expected to remain weak into the April to June period of 2023 partly because of a drop in consumer spending and housing investment.

Personnel and outsourcing expenses have been growing in recent years because of a shortage of manpower including drivers and warehouse workers. In such a situation, shippers have become more understanding of logistics companies' request for price increases than before. According to the "Report on the Survey of Logistics Costs for FY2022" released by the Japan Institute of Logistics Systems in April 2023, the ratio of logistics costs to net sales in FY2022 was 5.31%, down 0.39 points from the previous year as net sales recovered faster than growth in logistics costs. That said, it is tending to rise from the long-term perspective on the back of increases in truck fares and cargo handling costs due to labor shortages, etc.; in fact, it reached the highest in the past 20 years in FY2021 at 5.70%. Unit logistics costs relative to freight volume are tending to increase, and this trend is most likely to continue into the future.

In the real estate leasing business, vacancy rates were previously on the uptrend in some cities like Tokyo and Osaka partly because of the spread of teleworking amid the COVID crisis, which however are now curbing. 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 2023 was 6.11%. After hitting bottom at 1.49% as of February 29, 2020—prior to the COVID crisis, it rose to as high as 6.49% at September 30, 2022 and has been staying at the 6% level since then. Although office space demand may structurally change going forward partly because of the spread of flexible ways of working with an eye to the post-COVID era, 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 4.1% over the year to 85.8 billion yen in FY2022. By segment, the income (before consolidation adjustments) improved 4.9% and 0.9% to 79.8 billion yen and 26.9 billion yen for logistics and real estate, respectively. In the logistics business, revenue growth in the international transportation area as a result of soaring marine freight rates, shift from marine transportation to air transportation, etc. helped boost the income, which was also positively affected by recovery in freight movement 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 for the entire market, occupancy rates remained mostly steady for the major properties of the Companies. By company, the income reached a record high for Mitsubishi Logistics and MITSUI-SOKO HD, both of which saw sharp growth in the international transportation area continuing from FY2021, while improving for Shibusawa Warehouse thanks to an increase in the volume of cargo handled with the expansion of logistics facilities and Chuo

Warehouse thanks to the addition of the real estate business. It declined, however, for Sumitomo Warehouse due to the transfer of the marine transportation business during the year; Yasuda Logistics due to upfront investment requirements; and Toyo Logistics due to sluggish operations of distribution processing and so forth.

On the financial front, equity ratio and debt/equity ratio of the Companies combined as of March 31, 2023 both improved to 53.8% and 0.45x, from 52.5% and 0.48x a year earlier. Yet, individual results varied. Equity capital of the Companies combined as of the same date increased to 861.2 billion yen from 818.1 billion yen a year earlier thanks to profit accumulation, etc. Interest-bearing debt of the Companies combined on the other hand decreased only slightly to 391.6 billion yen from 394.0 billion yen a year earlier. While it decreased further for MITSUI-SOKO HD and Sumitomo Warehouse thanks to robust performance, it increased for other companies due to growth investment for the establishment of new logistics facilities, acquisition of revenue-generating properties and so forth. That said, the Companies maintain the favorable financial structure as they make investment in businesses and shareholder returns under the certain financial discipline, by and large.

3. Highlights for Rating

Operating income of the Companies combined for FY2023 is projected to fall 26.3% from FY2022 to 63.3 billion yen, primarily because operating revenue will turn downward in the international transportation area, which has been a profit driver, as marine freight rates will be normalized. Another likely negative factor is higher costs of personnel, utilities, fuels, etc. Although freight movement in Japan is becoming increasingly uncertain because of sluggish consumption and production due to rising product prices, JCR assumes that the volume of cargo handled of individual companies will remain steady, especially for cargo in priority areas like healthcare and consumer goods. In the real estate business, the Companies expect the stable occupancy of their properties to continue, which will probably underpin the overall performance.

By company, five companies, excluding Chuo Warehouse and Yasuda Logistics, forecast a lower income. Mitsubishi Logistics and MITSUI-SOKO HD anticipate a year-on-year decline of 21.8% and 23.0%, respectively, mainly because of the elimination of positive effects in the international transportation area. Sumitomo Warehouse projects a 44.4% drop largely because of the deconsolidation of the marine transportation business. 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 turn around, which previously was on the decline mainly due to an increase in upfront costs for the expansion of logistics facilities, reinforcement of existing facilities and so forth. The Companies are all focusing on expanding the handling of cargo while also working on bringing freight charges to appropriate levels, improving productivity through digital transformation and so forth. JCR is watching whether these initiatives will help absorb cost increases and maintain the earnings capacity.

On the financial front, JCR is looking at the execution of growth investment, 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 85 billion yen in FY2023 through FY2025; Shibusawa Warehouse around 25 billion yen to 35 billion yen in FY2021 through FY2023; Chuo Warehouse around 11 billion yen in FY2022 through FY2024; and Yasuda Logistics 36 billion yen in FY2022 through FY2024 to construct new and additional warehouses, carry out real estate development projects, etc., as well as to invest in M&A deals aimed at expanding the logistics networks and initiatives that will contribute to enhancing the digital transformation business. In fact, all of the Companies have drawn out a plan to build new warehouses, and some intend to acquire logistics companies relevant to their priority areas. 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 make progress in financial improvement 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)	FY2020	2,137	117	1,792	72	361	100
	FY2021	2,572	181	2,152	137	436	103
	FY2022	3,005	230	2,638	187	381	101
	FY2023F	2,700	180	2,323	135	393	101
MITSUI-SOKO HD (9302)	FY2020	2,535	176	2,446	149	96	58
	FY2021	3,010	259	2,922	237	95	57
	FY2022	3,008	259	2,920	239	96	59
	FY2023F	2,800	200	2,710	198	96	57
Sumitomo Warehouse (9303) ¹	FY2020	1,920	109	1,828	103	107	55
	FY2021	2,314	277	2,239	274	106	52
	FY2022	2,239	260	2,151	259	106	51
	FY2023F	2,000	145	1,894	150	112	51
Shibusawa Warehouse (9304)	FY2020	653	36	595	25	59	29
	FY2021	717	45	660	33	58	30
	FY2022	785	48	725	37	61	32
	FY2023F	790	47	730	37	62	31
Toyo Logistics (9306)	FY2020	276	10	270	17	5	2
	FY2021	283	13	278	20	5	2
	FY2022	281	12	275	17	6	2
	FY2023F	285	12				
Chuo Warehouse (9319) ²	FY2020	259	17	259	17		
	FY2021	239	18	240	26	0	-0
	FY2022	258	21	257	28	3	1
	FY2023F	275	23				
Yasuda Logistics (9324)	FY2020	477	32	417	32	65	21
	FY2021	530	29	468	31	67	20
	FY2022	597	25	537	29	65	20
	FY2023F	680	26				
Total	FY2020	8,259	500	7,610	418	696	267
	FY2021	9,667	824	8,961	761	771	267
	FY2022	10,176	858	9,506	798	722	269
	FY2023F	9,530	633				

Notes:

1. Sumitomo Warehouse's logistics business includes marine transportation (up to FY2022).
2. Chuo Warehouse's logistics business is the sum of domestic logistics and international cargo; the real estate leasing business was newly established in FY2022.

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

(Chart 2) Financial Indicators of Seven Warehouse Companies

(JPY 100 mn, %, times)

		FY2018	FY2019	FY2020	FY2021	FY2022
Mitsubishi Logistics (9301)	Equity Capital	2,961	2,833	3,235	3,440	3,507
	Interest-bearing Debt	867	960	1,073	1,028	1,052
	Equity Ratio	61.4	60.5	60.4	61.2	61.1
	Interest-bearing Debt/EBITDA	2.95	3.17	3.59	2.74	2.37
	Debt/Equity Ratio	0.29	0.34	0.33	0.30	0.30
MITSUI-SOKO HD (9302)	Equity Capital	474	497	626	794	932
	Interest-bearing Debt	1,424	1,270	1,078	939	850
	Equity Ratio	18.8	20.8	26.3	30.8	36.1
	Interest-bearing Debt/EBITDA	6.47	5.80	3.84	2.62	2.34
	Debt/Equity Ratio	3.01	2.56	1.72	1.18	0.91
Sumitomo Warehouse (9303)	Equity Capital	1,811	1,652	1,889	2,034	2,173
	Interest-bearing Debt	723	928	875	860	824
	Equity Ratio	56.2	51.9	54.1	54.4	56.3
	Interest-bearing Debt/EBITDA	3.83	4.21	3.91	2.13	2.07
	Debt/Equity Ratio	0.40	0.56	0.46	0.42	0.38
Shibusawa Warehouse (9304)	Equity Capital	422	435	479	533	570
	Interest-bearing Debt	363	363	385	358	373
	Equity Ratio	43.1	44.0	45.9	48.9	49.3
	Interest-bearing Debt/EBITDA	5.17	4.98	5.34	4.45	4.45
	Debt/Equity Ratio	0.86	0.84	0.80	0.67	0.66
Toyo Logistics (9306)	Equity Capital	192	198	211	221	232
	Interest-bearing Debt	136	133	139	136	156
	Equity Ratio	46.2	48.1	49.3	51.3	50.7
	Interest-bearing Debt/EBITDA	5.10	4.85	5.45	4.83	5.63
	Debt/Equity Ratio	0.71	0.67	0.66	0.61	0.67
Chuo Warehouse (9319)	Equity Capital	384	384	403	410	425
	Interest-bearing Debt	36	51	54	53	65
	Equity Ratio	81.8	79.6	79.3	76.9	75.8
	Interest-bearing Debt/EBITDA	1.18	1.62	1.64	1.57	1.64
	Debt/Equity Ratio	0.09	0.13	0.14	0.13	0.15
Yasuda Logistics (9324)	Equity Capital	662	682	759	745	769
	Interest-bearing Debt	286	359	433	561	592
	Equity Ratio	54.6	53.1	51.6	46.9	46.4
	Interest-bearing Debt/EBITDA	4.01	4.83	5.57	7.21	7.53
	Debt/Equity Ratio	0.43	0.53	0.57	0.75	0.77
Total	Equity Capital	6,910	6,683	7,606	8,181	8,612
	Interest-bearing Debt	3,836	4,067	4,041	3,940	3,916
	Equity Ratio	50.6	49.8	51.8	52.5	53.8
	Interest-bearing Debt/EBITDA	4.25	4.29	3.99	2.90	2.73
	Debt/Equity Ratio	0.56	0.61	0.53	0.48	0.45

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: 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: Positive

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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