

Q&A Discussion: Low-Temperature Logistics Strategy

① Challenges and Responses Regarding the Replacement of Frozen and Refrigerated Warehouses

Q1: Due to aging facilities and the need for measures against fluorocarbons, (a type of refrigerant gas used in freezing and refrigeration equipment) it has become necessary to rebuild frozen and refrigerated warehouses, which has been a challenge in recent years. How does this industry environment impact SG Holdings' business?

A1: Regarding fluorocarbons, their use must be reviewed by 2030, and our Group companies Meito Transportation and Hutech norin are also formulating response plans. Regarding aging, some of our facilities are nearly 50 years old, primarily located in coastal areas. On the other hand, inland facilities are relatively new and do not present significant issues at this time.

Across the low-temperature warehouse industry, while there are regional variations, some areas have 40-50% of warehouses over 40 years old and aging facilities are an industrial issue. While large companies can handle rebuilding old facilities, it is considered difficult for small and medium-sized companies, which account for about 90% of the industry, given rising construction costs. Therefore, there are concerns about temporary supply-demand tightness during the rebuilding period and a future shortage of frozen and refrigerated warehouses.

However, we believe that the development of multi-tenant low-temperature warehouses will lead to shifts in market share due to new entrants and changes to traditional business models. In Japan, over the past 2-3 years, developers have increasingly focused on frozen warehouses as an investment target. While rents remain high, the number of available facilities is growing, with a surge in completions expected through 2027. We will also be an anchor tenant in the multi-tenant logistics facility "GLP Kawasaki II," being developed by GLP Japan in Ogimachi, Kawasaki Ward, Kawasaki. We plan to lease approximately 33,000 m² of the facility's total 99,000 m² space. Located in the bay area, this facility will install mobile racks as we expand our operations.

On the other hand, with a build-to-suit warehouses, it is possible to construct a building approximately 20 meters tall and introduce an automated warehouse (multi-tenant facilities generally cannot achieve such floor-to-ceiling heights, making it difficult to introduce large scale storage systems). Given that frozen food storage requires temperatures below minus 20 degrees Celsius—creating an extremely harsh working environment—it is essential to leverage automated warehouses and similar

technologies to reduce manual operations and secure a stable workforce.

Therefore, we believe it is necessary to utilize automated warehouses and other automation equipment to reduce the need for manual labor under these conditions.

Based on these circumstances and construction cost trends, against this backdrop, we will carefully assess the feasibility of investment recovery in cold-chain logistics facilities, while considering both leasing and in-house development options, taking into account supply-demand conditions and trends in construction costs.

Furthermore, while our current warehouse utilization rates are high, there are room for further utilization, and there is also potential for expansion in our joint delivery business.

We aim to maximize the use of existing resources while pursuing efficient investments with an eye toward the future.

② Toward Achieving the Operating Income Target

Q2: Regarding the FY2028 operating income target of 15.0 billion yen, where do you see the greatest potential for synergistic effects? Please outline the primary drivers of profit growth and the specific path to achieving the target.

A2: We view the joint delivery business as a highly attractive area. From on-site observations, we've seen that even companies like major dairy manufacturers, which previously did not participate in joint delivery, are considering joining in certain regions because their in-house delivery costs are unsustainable. Therefore, we expect the joint delivery business to grow steadily, depending on future developments.

Furthermore, we are seeing a significant number of inquiries in e-commerce and expect steady growth going forward. Additionally, cold chain delivery is a key focus area for Sagawa Express, and the number of packages has increased substantially since last year. This is partially due to Meito/Hutech switching last mile carriers to Sagawa Express's Hikyaku Cool Express after the consolidation. With the growing demand for food e-commerce, cold chain delivery is expected to expand further.

In addition, regarding low-temperature TMS, growth in the frozen sector is anticipated, similar to Sagawa Express's TMS, and it maintains a high profit margin.

We will prioritize strengthening these three areas (joint delivery, e-commerce, and cold chain delivery) while advancing our business toward achieving our goals, including exploring possibilities such as BtoB lot delivery. We will make necessary adjustments as required and strive to reliably achieve the target of 15.0 billion yen in operating income.

③ Business Area Selection and Structural Review Policy

Q3: You have various businesses in low-temperature logistics. From a selection and concentration perspective, do you plan to focus management resources on more profitable areas and scale back less profitable ones in future business development?

A3: We believe selection and concentration may be necessary depending on the business type. As part of our Logistics Business, we plan to raise ROIC to 5.5% by 2030. We will explore the best approaches, including reviewing business structures and consolidations, while carefully assessing the profitability and growth potential of each business. At this point, no specific policies have been finalized. We will provide further explanation when we are able to discuss them.

④ Facility Investment Policy and Growth Strategy Approach

Q4: Based on your earlier explanation, I understand the policy prioritizes leasing over self-investment. Regarding future growth pace, if new large warehouses are supplied due to logistics facility availability, would it be correct to understand that SG Holdings' profit growth would accelerate?

A4: Although facility decisions including supply and withdrawal require difficult judgments, we have secured land in certain regions (such as Hutech norin branch in Kansai region and Tohoku region) and are considering expanding our own facilities while monitoring the competitive landscape. Furthermore, should we be able to receive appropriate fees from customers and anticipate returns commensurate with the investment, we intend to actively pursue investments in our own facilities. Considering the surge in construction costs, we will make careful judgments and proceed proactively when the timing for investment is right.

⑤ Direction of Capital Investment Plans and Profit Improvement Measures

Q5: What level of facility investment should be anticipated during the Mid-term Management Plan period? Please confirm whether the impact of factors like soaring construction costs has caused significant deviation from the initial plan. Also, from the perspective of improving asset returns, can we still consider measures such as joint distribution and raising unit prices as the core strategy?

A5: Over the three-year Mid-term Management Plan, we plan to invest 140.0 billion yen in facility investments and 14.0 billion yen in vehicle investments as growth investments. These include delivery facilities, as well as additional low-temperature warehouses and refrigerated/frozen vehicles.

Regarding profit improvement, we believe the joint delivery business is particularly effective. Furthermore, regarding e-commerce, we are receiving numerous projects involving warehouse operations, distribution processing, and delivery, which are also coordinated with Sagawa Express's Hikyaku Cool Express. Hikyaku Cool Express prioritizes quality by using dedicated low-temperature line-haul transportation instead of general dry line-haul, making load efficiency a major factor in its profit structure. While the number of packages is currently increasing, managing seasonal fluctuations remains a challenge. Particularly in December, when volume reaches about twice that of a typical month, we are working to improve loading efficiency and profitability by

discussing load distribution with portal sites such as the hometown tax donation program.

In addition to these initiatives, we aim to further accelerate the growth of the entire Group by combining the 3PL business of Meito/Hutech.

⑥ Trends in the Frozen Food Market and Responses to the Business Environment

Q6: While historical performance indicates growth in the frozen food market, recent trends suggest a challenging environment for actual consumption, leading to views that the frozen food market itself is becoming increasingly challenging. Within SG Holdings' plan to increase the Logistics Business operating revenue by approximately 10% each year for the next two fiscal years, how do you assess the current business environment?

A6: Meito Transportation and Hutech norin are independent companies, with a diversified customer base rather than relying on a single client, and we believe the impact of performance fluctuations from specific manufacturers is very small.

Regarding the competitive landscape, very few companies can cover the entire nation with their joint delivery business. We also outsource joint delivery operations to partner companies in some regions. However, we recognize that there are limited companies capable of providing services that reliably meet delivery lead times in key regions centered around Tokyo, Nagoya, and Osaka. In this regard, we believe we possess a certain competitive advantage and, consequently, pricing power. While numerous small-scale operators exist in regional areas, we believe we can leverage our competitive advantage by enhancing our pricing power and logistics consolidation capabilities.

Even as the business environment changes and the volume of chilled goods decreases, we intend to leverage our strengths to expand our business, such as capturing areas where large companies cannot handle operations themselves.