SENKO Group Holdings Co., Ltd.

Summary of Financial Statements for the Second Quarter of the Fiscal Year Ending March 31, 2018 [Japan GAAP]

November 10, 2017

Name of Listed Company: SENKO Group Holdings Co., Ltd. Stock Listed on: The First Section of the Tokyo Stock Exchange
Code Number: 9069 URL http://www.senkogrouphd.co.jp/en/
Representative: Title: President Name: Yasuhisa Fukuda
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Scheduled Date of Issue of Financial Report: November 14, 2017 Scheduled Date of Dividend Paid: December 5, 2017
Supplemental Information Materials: Yes
Scheduled Date of Quarterly Information Meeting: Yes (for institutional investors)

1. Consolidated Operating Results for the Six Months Ended September 30, 2017

(1) Consolidated Operating Results

Note: Amounts less than ¥1 million have been rounded down.

	Operating revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2017	242,300	7.9	7,991	(10.0)	8,025	(8.2)	4,351	(2.7)
Six months ended September 30, 2016	224,521	4.3	8,875	7.4	8,741	10.6	4,471	3.4

(Note) Comprehensive income

Six months ended September 30, 2017: ¥6,264 million (23.0%) Six months ended September 30, 2016: ¥5,094 million (-0.6%)

	Profit per share	Diluted profit per share
	Yen	Yen
Six months ended September 30, 2017	28.68	26.60
Six months ended September 30, 2016	31.24	29.39

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2017	311,358	120,208	33.5	685.80
As of March 31, 2017	285,958	114,090	35.1	661.61

(Reference) Shareholders' equity:

As of September 30, 2017: ¥104,170 million As of March 31, 2017: ¥100,287 million

2. Dividends

	Annual dividend				
	June 30	September 30	December 31	March 31	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2017	-	11.00	-	11.00	22.00
Fiscal year ending March 31, 2018	-	11.00			
Fiscal year ending March 31, 2018 (Forecast)			-	11.00	22.00

(Note) Change in the estimation of dividend for the fiscal year in this period: None

3. Forecast of Consolidated Operating Results for the Fiscal Year Ending March 31, 2018 (From April 1, 2017 to March 31, 2018)

(Percentage figures represent year-on-year changes)

	Operating revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending March 31, 2018	500,000	9.8	18,000	5.4	18,300	5.8	9,900	10.6	65.31

(Note) Change in the forecast made in this period: None

Notes

(1) Changes in significant subsidiaries during the period (Changes in specified subsidiaries associated with change in scope of consolidation): None

(2) Use of accounting methods specifically for the preparation of the quarterly consolidated financial statements: None

(3) Changes in accounting principles and estimates, and retrospective restatement

(a) Changes due to revision of accounting standards: None

(b) Changes other than in (a): None

(c) Changes in accounting estimates: None

(d) Retrospective restatement: None

(4) Shares outstanding (Common shares)

(a) Shares outstanding (including treasury shares)

As of September 30, 2017:	152,861,921 shares	As of March 31, 2017:	152,861,921 shares

(b) Treasury shares

As of September 30, 2017:	965,915 shares	As of March 31, 2017:	1,279,937 shares

(c) Average number of shares (quarterly consolidated cumulative period)

Six months ended September 30, 2017:	151,724,773 shares	Six months ended September 30, 2016:	143,098,676 shares

(Note) Starting with the first quarter of the consolidated fiscal year ended March 31, 2015 (the three months ended June 30, 2014), the number of treasury shares at term-end includes Senko shares owned by the employee stock ownership plan (ESOP) trust, following revisions to accounting principles due to the amendment of accounting standards. (As of September 30, 2017: 589,000 shares; as of March 31, 2017: 873,200 shares)

Quarterly financial results reports are not required to be subjected to quarterly reviews.

Cautionary statement regarding forecasts of operating results and special notes

Forward-looking statements in these materials are based on information available to management at the time this report was prepared and assumptions that management believes are reasonable. Actual results may differ significantly from these statements for a number of reasons. For information about the assumptions used for forecasts and precautions concerning the use of forecasts, please see “Forecast for the full-term of the fiscal year ending March 31, 2018” on page 4.

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1. Results of Operations and Financial Condition

(1) Results of operations

In the six-month period of the fiscal year ending March 31, 2018 (April 1, 2017 to September 30, 2017), the Japanese economy has been recovering at a moderate pace amid firm consumer spending and capital expenditure against backdrop of factors that include more upbeat corporate earnings and a better employment environment. Meanwhile, the global economy has been on a path of recovery brought about by factors that include a robust U.S. economy and an upturn in the emerging economies of Asia, despite continuing uncertainties ahead largely fueled by effects of geopolitical risk.

In the logistics industry where our core business lies, freight volume has been heading toward recovery but the business environment overall has remained challenging due to shortages of drivers and workers combined with increasing costs particularly with respect to expenses for hiring vehicles and other outsourcing costs.

In this environment, the Senko Group transitioned to a holding company structure in April, 2017, and embarked on the "Senko Innovation Plan 2021 (SIP21)" five-year medium-term business plan.

The following provides an outline of our main activities in the second quarter of the current fiscal year.

In Japan, in order to forge ahead with efforts to further expand our marine shipping business, we added NIPPON MARINE CO., LTD. which engages in marine transport for the JX Nippon Mining & Metals Group, as well as with EIKICHI KAIUN CO., LTD, to the Senko Group in April.

In October, the Group also added Kanto region cargo truck carrier ANZEN YUSO CO., LTD., based in Kanagawa Prefecture, in order to boost the use of the Group's own trucks and expand its operations.

Regarding distribution centers, in April we commenced operations of the Yokkaichi No. 2 PD Center (Yokkaichi City, Mie Prefecture) with the aim of fortifying our logistics functions in the Chubu region, and in July we commenced operations of our New Komaki PD Center (Oguchi town, Aichi Prefecture).

Also, in the East Japan region, in June we commenced operations of Ranzan Logistics Center (Ranzan Town, Saitama Prefecture), and in September Aomori Logistics Center (Goshogawara City, Aomori Prefecture), our first logistics facility located in Aomori Prefecture.

Meanwhile outside Japan, Singapore-based Skylift Consolidator (Pte) Ltd., which engages in the business of international air and marine transport and other such operations, became a Group company in April. Going forward, we will aim to involve upgrading our logistics network and strengthening our business infrastructure.

Also, our overseas subsidiary established last year in Vietnam launched full-scale forwarding business operations in May serving Japanese companies situated in the suburbs of Ho Chi Minh City.

At the end of October, we completed construction of the NH-SENKO Logistics Center, which is our second such facility in South Korea's Busan New Port.

In the trading & commerce business segment, SMILE CORP. established an overseas subsidiary in Vietnam in April, and OKUMURA CO., LTD., a company that manufactures and sells slippers, was brought into the Group in September. We have made the manufacturing enterprise part of Group with the aims of improving our product development strengths and bolstering our price competitiveness, working in conjunction with that company.

Meanwhile we added companies to the Group with the aim of expanding our areas of business, including Aya Construction Co., Ltd., a company located in Miyazaki Prefecture which operates in the construction business and the industrial waste collection and transportation business in July, and fitness club operator BLUE EARTH Co., Ltd. in September, with the aim of bolstering our nursing care, medical and health-related businesses.

In October, the Group welcomed VENUS CO., LTD., a company which operates services for seniors to prevent the need for long-term care.

In June, we received the Logistics Environment Special Award at the Japan Association for Logistics and Transport's 18th Logistics Environment Awards Ceremony, in recognition of our initiatives to switch to the use of railroads and marine vessels, from trucks previously, for long-distance transport of apparel, housing, food and other items, with respect to shifting modes of transport with the aim of reducing environmental impact and addressing the driver shortage. In September, Japan's Ministry of Land, Infrastructure and Transport (MLIT) recognized our two new initiatives geared to achieving shifts to new modes of transport by certifying them as comprehensive and efficient logistics plans based on the Act of Logistics Integration and Efficiency.

As of September 30, 2017, the modal shift rate of SENKO Co., Ltd. amounts to 65% (the modal shift rate is the ratio of railway and marine cargo by weight relative to cargo, by weight, transported more than 500 kilometers via trunk line transportation).

The six-month-period performance was as follows.

(Unit: Millions of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017	Change	%
Operating revenue	224,521	242,300	17,779	7.9
Operating profit	8,875	7,991	(884)	(10.0)
Ordinary profit	8,741	8,025	(716)	(8.2)
Profit attributable to owners of parent	4,471	4,351	(119)	(2.7)

Consolidated operating revenue of the Senko Group increased 7.9% year on year to ¥242,300 million. This result mainly reflected the aggressive expansion of sales and the contribution of NIPPON MARINE CO., LTD., which was made a consolidated subsidiary of the Company.

On the profit front, despite factors buoying profits brought about by sales expansion and moves to make NIPPON MARINE CO., LTD. and another entity consolidated subsidiaries, consolidated operating profit decreased to ¥7,991 million, down 10.0% year on year, consolidated ordinary profit decreased to ¥8,025 million, down 8.2% year on year, and profit attributable to owners of parent decreased to ¥4,351 million, down 2.7% year on year. The downturn in profits was largely attributable to factors that include higher costs due to rising fuel prices and actuarial differences in accounting for retirement benefit obligations, in addition to factors such as a decline in freight volumes from existing customers and diminished demand in relation to the 2016 Kumamoto Earthquake.

The six-month-period operating revenue by segment was as follows.

Logistics

Operating revenue grew 8.2% year on year to ¥170,424 million in this segment. This was mainly attributable to higher revenues generated through the consolidation of NIPPON MARINE CO., LTD. and another entity, increased operations due to the opening of large facilities in the previous fiscal year and expanded sales in relation to retailers and mass merchandisers, such as major drug stores.

Trading & commerce

Operating revenue grew 6.0% year on year to ¥68,584 million in this segment. This was mainly attributable to higher revenues due to increasing fuel prices along with expansion of sales to new customers, despite diminished demand in relation to the 2016 Kumamoto Earthquake.

Others

Operating revenue rose 40.8% year on year to ¥3,291 million in this segment. This was mainly attributable to the growth of sales in the call center business.

(2) Financial condition

1) Assets, liabilities and net assets

Total assets

Total assets as of September 30, 2017 were ¥311,358 million, ¥25,400 million higher than at the end of the previous fiscal year. Current assets amounted to ¥116,808 million, up ¥8,109 million from the end of the previous fiscal year. This mainly reflected an increase of ¥8,018 million in notes and operating accounts receivable. Non-current assets totaled ¥194,479 million, up ¥17,303 million from the end of the previous fiscal year. This was primarily due to increases in property, plant and equipment of ¥10,257 million due to effects of M&As and new capital expenditure, and despite a decreasing factor as a result of transfers of three logistics centers to the private REIT, ¥868 million in intangible assets and ¥6,177 million in investments and other assets.

Liabilities

Liabilities as of September 30, 2017 increased ¥19,282 million from the end of the previous fiscal year to ¥191,150 million. Current liabilities totaled ¥99,706 million, up ¥5,791 million from the end of the previous fiscal year. This was mainly due to increases of ¥2,651 million in notes and operating accounts payable - trade, ¥657 million in electronically recorded obligations - operating, and ¥627 million in provision for bonuses. Non-current liabilities totaled ¥91,443 million, up ¥13,490 million from the end of the previous fiscal year. This was primarily due to an increase in long-term loans payable of ¥12,490 million.

Net assets

Net assets as of September 30, 2017 rose ¥6,117 million from the end of the previous fiscal year to ¥120,208 million. This was mainly attributable to increases of ¥2,839 million in retained earnings, and ¥2,257 million in non-controlling interests. The equity ratio as of September 30, 2017 decreased by 1.6 percentage points to 33.5% from the end of the previous fiscal year.

2) Cash flows

Cash and cash equivalents as of September 30, 2017 decreased by ¥882 million from the end of the previous fiscal year to ¥25,314 million.

Net cash provided by operating activities amounted to ¥10,731 million. This was mainly due to profit before income taxes of ¥7,939 million, depreciation of ¥5,817 million, an increase in cash due to an increase in notes and accounts payable-trade of ¥1,257 million and proceeds from subsidy income of ¥1,252 million, and despite a ¥4,101 million decrease in cash from an increase in notes and accounts receivable-trade and income taxes paid of ¥3,071 million.

Net cash used in investing activities totaled ¥10,728 million. This was mainly due to the purchase of property, plant and equipment of ¥13,724 million, purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥1,375 million, and purchase of shares of subsidiaries and associates of ¥4,153 million and payments for investments in capital of subsidiaries and associates of ¥1,082 million, despite proceeds from sales of property, plant and equipment of ¥10,493 million.

Net cash used in financing activities totaled ¥922 million. This was mainly due to a repayment of long-term loans payable of ¥9,184 million, repayments of finance lease obligations of ¥1,599 million, and cash dividends paid of ¥1,675 million, despite net increase in short-term loans payable of ¥3,862 million and proceeds from long-term loans payable of ¥8,092 million.

(3) Forecast for the full-term of the fiscal year ending March 31, 2018

No revisions have been made to the forecast of consolidated operating results for the fiscal year ending March 31, 2018, announced in "Summary of Financial Statements for the Fiscal Year Ended March 31, 2017" on May 11, 2017.

2. Consolidated Financial Statements

(1) Consolidated balance sheets

(Unit: Millions of Yen)

	As of March 31, 2017	As of September 30, 2017
Assets		
Current assets		
Cash and deposits	27,162	26,534
Notes and operating accounts receivable	61,975	69,994
Merchandise and finished goods	7,006	7,130
Work in process	305	415
Raw materials and supplies	292	445
Other	11,978	12,303
Allowance for doubtful accounts	(21)	(15)
Total current assets	108,699	116,808
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	53,420	49,049
Land	56,700	57,730
Other, net	19,993	33,591
Total property, plant and equipment	130,114	140,371
Intangible assets		
Goodwill	5,617	6,127
Other	4,086	4,445
Total intangible assets	9,704	10,572
Investments and other assets		
Investment securities	16,452	21,167
Net defined benefit asset	2,359	2,844
Guarantee deposits	11,197	11,759
Deferred tax assets	2,050	1,987
Other	6,322	6,793
Allowance for doubtful accounts	(1,025)	(1,017)
Total investments and other assets	37,357	43,535
Total non-current assets	177,175	194,479
Deferred assets		
Business commencement expenses	83	70
Total deferred assets	83	70
Total assets	285,958	311,358

(Unit: Millions of Yen)

	As of March 31, 2017	As of September 30, 2017
Liabilities		
Current liabilities		
Notes and operating accounts payable−trade	33,731	36,383
Electronically recorded obligations−operating	6,773	7,430
Short-term loans payable	25,631	25,242
Income taxes payable	3,916	2,965
Provision for bonuses	4,228	4,856
Provision for directors' bonuses	210	152
Provision for loss on disaster	96	–
Other	19,327	22,675
Total current liabilities	93,914	99,706
Non-current liabilities		
Bonds payable	7,000	7,240
Convertible bond-type bonds with subscription rights to shares	10,049	10,044
Long-term loans payable	42,483	54,974
Provision for directors' retirement benefits	276	150
Provision for special repairs	37	74
Net defined benefit liability	7,087	7,047
Asset retirement obligations	817	828
Other	10,200	11,083
Total non-current liabilities	77,953	91,443
Total liabilities	171,868	191,150
Net assets		
Shareholders' equity		
Capital stock	26,528	26,528
Capital surplus	25,411	25,398
Retained earnings	48,654	51,494
Treasury shares	(657)	(426)
Total shareholders' equity	99,937	102,994
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,391	1,733
Deferred gains or losses on hedges	1	37
Foreign currency translation adjustment	250	219
Remeasurements of defined benefit plans	(1,293)	(814)
Total accumulated other comprehensive income	350	1,176
Subscription rights to shares	396	373
Non-controlling interests	13,406	15,664
Total net assets	114,090	120,208
Total liabilities and net assets	285,958	311,358

(2) Consolidated statements of (comprehensive) income

(Consolidated statements of income)

(For the six months ended September 30, 2016 and 2017)

(Unit: Millions of Yen)

	Six months ended September 30, 2016 (April 1, 2016–September 30, 2016)	Six months ended September 30, 2017 (April 1, 2017–September 30, 2017)
Operating revenue	224,521	242,300
Operating cost	199,642	217,093
Operating gross profit	24,879	25,207
Selling, general and administrative expenses	16,003	17,216
Operating profit	8,875	7,991
Non-operating income		
Interest income	61	43
Dividend income	81	89
Other	597	789
Total non-operating income	739	922
Non-operating expenses		
Interest expenses	499	476
Other	374	413
Total non-operating expenses	873	889
Ordinary profit	8,741	8,025
Extraordinary income		
Delinquency charges	–	157
Gain on sales of non-current assets	186	110
Gain on sales of investment securities	–	66
Total extraordinary income	186	334
Extraordinary losses		
Loss on office withdrawal	–	311
Loss on retirement of non-current assets	51	109
Expenses related to commemorative works for centennial anniversary	133	–
Loss on disaster	88	–
Total extraordinary losses	273	420
Profit before income taxes	8,654	7,939
Income taxes−current	2,658	2,410
Income taxes−deferred	469	131
Total income taxes	3,128	2,542
Profit	5,526	5,396
Profit attributable to non-controlling interests	1,055	1,044
Profit attributable to owners of parent	4,471	4,351

(Consolidated statements of comprehensive income)

(For the six months ended September 30, 2016 and 2017)

(Unit: Millions of Yen)

	Six months ended September 30, 2016 (April 1, 2016–September 30, 2016)	Six months ended September 30, 2017 (April 1, 2017–September 30, 2017)
Profit	5,526	5,396
Other comprehensive income		
Valuation difference on available-for-sale securities	(117)	390
Deferred gains or losses on hedges	(31)	36
Foreign currency translation adjustment	(448)	(42)
Remeasurements of defined benefit plans, net of tax	165	483
Total other comprehensive income	(431)	868
Comprehensive income	5,094	6,264
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,069	5,177
Comprehensive income attributable to non-controlling interests	1,025	1,087

(3) Consolidated statements of cash flows

(Unit: Millions of Yen)

	Six months ended September 30, 2016 (April 1, 2016–September 30, 2016)	Six months ended September 30, 2017 (April 1, 2017–September 30, 2017)
Cash flows from operating activities		
Profit before income taxes	8,654	7,939
Depreciation	5,038	5,817
Loss (gain) on sales of non-current assets	(185)	(102)
Loss on retirement of non-current assets	51	109
Decrease (increase) in net defined benefit asset	(209)	136
Increase (decrease) in net defined benefit liability	2	(78)
Increase (decrease) in provision for bonuses	521	493
Interest and dividend income	(142)	(133)
Interest expenses	499	476
Decrease (increase) in notes and accounts receivable-trade	68	(4,101)
Decrease (increase) in inventories	(197)	247
Increase (decrease) in notes and accounts payable-trade	(688)	1,257
Increase (decrease) in accrued consumption taxes	861	711
Other	169	(7)
Subtotal	14,443	12,765
Proceeds from subsidy income	–	1,252
Interest and dividend income received	199	271
Interest expenses paid	(501)	(487)
Income taxes paid	(3,456)	(3,071)
Net cash provided by (used in) operating activities	10,685	10,731
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,471)	(13,724)
Proceeds from sales of property, plant and equipment	17,296	10,493
Purchase of investment securities	(40)	(33)
Proceeds from sales of investment securities	–	145
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(325)	(1,375)
Purchase of shares of subsidiaries and associates	(2,735)	(4,153)
Payments for investments in capital of subsidiaries and associates	–	(1,082)
Other	(400)	(998)
Net cash provided by (used in) investing activities	7,323	(10,728)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	135	3,862
Proceeds from long-term loans payable	3,050	8,092
Repayment of long-term loans payable	(4,038)	(9,184)
Repayments of finance lease obligations	(1,336)	(1,599)
Proceeds from sales of treasury shares	203	209
Cash dividends paid	(1,585)	(1,675)
Dividends paid to non-controlling interests	(59)	(124)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(58)	–
Other	(109)	(503)
Net cash provided by (used in) financing activities	(3,800)	(922)
Effect of exchange rate change on cash and cash equivalents	(239)	(17)
Net increase (decrease) in cash and cash equivalents	13,968	(937)
Cash and cash equivalents at beginning of period	17,765	26,197
Increase in cash and cash equivalents from newly consolidated subsidiary	5	55
Cash and cash equivalents at end of period	31,739	25,314