

Message from the President



Since the fiscal year ended March 31, 2018, the Yamato Group has been gradually moving forward with a series of reforms. However, the Group must further pursue innovations in order to improve its corporate value over the medium to long term.

To that end, we have been gathering together the comprehensive strengths of the Group to embark on bold new challenges with the aims of meeting customer and social needs, realizing sustainable growth for the next 100 years, and contributing to the realization of a sustainable society.

Yutaka Nagao

Representative Director,
President and Executive Officer

Celebrating Our 100-Year Anniversary

On November 29, 1919, Yamato Holdings was founded as Yamato Transport Co., Ltd. in the Ginza area of Tokyo. The year 2019 marked the Company's 100-year anniversary. The fact that we were able to celebrate such a significant milestone is due entirely to the support of those who have accompanied us throughout this journey, including our customers and employees, and for that I would like to offer my sincere gratitude.

At a time when packages were delivered by horse carriages and wagons, the Company's founder, Yasuomi Ogura, focused on the future potential of automobiles. Based on the firm belief that trucks would become the main means of cargo transportation, Ogura purchased four out of the only 204 total trucks that were in Japan at the time, and commenced the transport business.

In our 100-year history since establishment, three innovations have driven growth of the Yamato Group. The first came in 1929, when the Company commenced a regular delivery service between Tokyo and Yokohama, which was the first route-based delivery service in Japan. The second innovation was in 1976, when the Company launched the

TA-Q-BIN service. And the third is the promotion of "Value Networking" Design announced in 2013. We currently continue to provide new value to the corporate domain. What has supported our 100-year history is the spirit of innovation that we inherited from our founder as well as the Yamato Group's corporate philosophy centered on the Core Values, which was established by our founder and represents our origin, and the Management Philosophy, which sets out that the purpose of our business is to enrich society. By sharing these beliefs between our management and our frontline personnel as part of the Yamato DNA and engaging in business activities, we have been able to achieve sustainable development as a corporate group that plays a crucial role in today's society.

I believe that "delivery" has the capability to enrich people's lifestyles, and developing new "ways of delivery" and innovating them can bring about change in people's lifestyles and to society as a whole. The Group's mission is to contribute to the realization of an enriched society through innovating new "ways of delivery," as a social infrastructure company as stated in the Management Philosophy.

Progress of Reforms

In recent years, the business environment surrounding the Yamato Group has been undergoing drastic change. Delivery amounts have been dramatically increasing following the rapid growth of e-commerce while labor supply and demand have been tightening. The fiscal year ended March 31, 2017 marked a significant turning point for the Group as our existing delivery systems faced a significant roadblock as a result of these changes. Furthermore, our customers and their needs are continuing to diversify, and it is becoming difficult to properly respond to these diverse needs through a uniform service such as *TA-Q-BIN*. In addition, Japanese society is facing such major issues as a declining population and a diminishing rural society, while the world itself is dealing with intensifying threats to its sustainability, including climate change and resource shortages.

Amid such changes in the business environment, we pushed ahead with reforms that will enable us to pursue a genuine shift to new frameworks and systems under the medium-term management plan "KAIKAKU 2019 for NEXT100" (hereinafter, "KAIKAKU 2019"), which we formulated in the fiscal year ended March 31, 2018. These reforms seek to ensure that our employees on the front lines are able to continue to work in an employee-friendly environment that offers rewarding experiences.

I believe we have made genuine accomplishments in regard to "Work Style Reform," which we have been

pursuing as a top priority under KAIKAKU 2019. We have shortened overall working hours and overtime hours for our employees, including sales drivers, by integrating methods to control working hours and introducing new working styles. We have also have seen an increase in the rate at which our employees take annual paid leave. In these ways, we are seeing steady improvements. Based on our Working Styles Awareness Surveys, which target all Group employees and are carried out on a regular basis, we have seen significant improvement in employee awareness in terms of providing employee-friendly working environments and rewarding experiences. At the same time, the survey indicated that a greater number of employees have the desire to continue working with the Yamato Group. While "Work Style Reform" will remain an important theme for us as we go forward, I feel we have already made great strides from the perspective of improving employee satisfaction.

The success we have had with the steady promotion of "Work Style Reform" can be attributed greatly to the results we have achieved with our concurrent promotion of "Structural Reform in the Delivery Business." In addition to establishing an improved pickup and delivery system through the employment of both sales drivers and "Anchor Cast" (drivers for early evening and night deliveries), we have enabled the design of optimal pickup and delivery routes through the introduction of digital operations in the day-to-day work of our sales drivers, thereby improving

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productivity. Also, we have steadily reduced the rate of absence during delivery by expanding customer contact points through efforts such as increased establishment of PUDO stations, which offer open-type parcel lockers.

I can say with confidence based on the initiatives we have been pursuing that digitalization is undoubtedly the key to realizing future growth. As we are expecting to see the use of e-commerce spread even further going forward, promoting digitalization represents a tremendous growth

opportunity for the Group as a whole. For example, if we are able to find out whether the customer receiving a package will be absent or not beforehand, then there is naturally no need to make a delivery. In the same sense, if we can use digital technologies to find out the status of the receipt of a package, then we will be able to optimize and enhance the efficiency of our operational design. This in turn will enable us to improve our pickup and delivery capacity without having to rely on additional manpower.

Striving to Create a New Business Pillar

To realize sustainable growth for the next 100 years, the Yamato Group must establish a new business pillar to succeed the *TA-Q-BIN* business. To that end, we need to create new value and deliver that value to customers by maximizing the use of our management resources, including the Group's human resources, capabilities, and know-how we have cultivated thus far. One of the most important roles for me as president is to determine how we can allocate the Group's management resources in an optimum manner in a bid to achieve this aim.

Under KAIKAKU 2019, we have been pursuing "Reform of Revenue and Business Structure Geared to Achieving Discrete Growth." To accomplish this reform, we have focused our efforts on strengthening our ability to propose solutions that respond to the needs of the entire supply chain of our corporate clients and establishing new third-party logistics services so to speak. Our greatest competitive edge is our logistics functions that facilitate our *TA-Q-BIN* service, however if we consider these functions from the perspective of the entire supply chain, they lie solely in the downstream domain. If we draw on the Group's management resources of information technology (IT), logistics technology (LT), and financial technology (FT) to the greatest extent possible, we will be able to provide solutions throughout the entire supply chain, from downstream to upstream domains.

Although we have been promoting solution-based sales, we have yet to be able to expand beyond simply the

functions customers can use, such as *TA-Q-BIN*, storage services, and packaging. To overcome this issue, over the past three years we have been cultivating human resources who can identify issues across the entire supply chain of our customers, not issues specific to certain functions, and propose solutions to these issues accordingly. We have also taken steps to establish a structure for promoting account-based sales. In order to provide the best possible solutions to our customers, I believe it is imperative that we consolidate our management resources such as personnel and functions that have been spread across the operating companies within the Group. Guided by this belief, we commenced collaboration between our operating companies on a virtual basis in April 2019, which was followed by the start of full-scale operation of a new sales structure that integrates the corporate sales divisions of each Group company in October 2019.

To accelerate the provision of solutions that encompass the entire supply chain and grow such solutions into a new business pillar, we must not only strengthen our downstream logistics function but we must also work to reshape our management resources such as our networks and terminals, which make our logistics function possible, in a manner that is tailored to the solutions we provide. Furthermore, it is imperative that we continue to pursue innovation, such as revamping our management structure and promoting data-based strategies, if we are to offer the best possible solutions for our customers.

Further Innovation for the Next 100 Years

In addition to "Structural Reform in the Delivery Business" and "Reform of Revenue and Business Structure Geared to Achieving Discrete Growth," we have been promoting "Reform of Group Management Structure Geared to Achieving Sustainable Growth" under KAIKAKU 2019, while also placing "Work Style Reform" at the center of our management. Although we have achieved a certain level of

results with "Work Style Reform" and "Structure Reform in the Delivery Business" thus far, amid the dramatic changes taking place in the social and economic environment, we have concluded that we must pursue even greater reform to our revenue and business structure as well as our Group management structure in order to contribute to an enriched society in the next generation. I personally feel that the issue

is that the Group itself has not sufficiently addressed the needs of its customers. Furthermore, the issue we must deal with in order to realize sustainable growth essentially boils down to the fact that under our current *TA-Q-BIN*-centered management structure, which includes our strategies, management systems, and organizational and corporate culture, we have been unable to respond to the expectations and needs of our customers and society at large. In reality, as the shift to e-commerce progresses rapidly on an industrial level, a uniform service such as *TA-Q-BIN* will not allow us to offer an appropriate response to corporate clients who wish to optimize their supply chain and e-commerce customers with diverse needs. Viewing our current management structure as the root of our issues, we have formulated “YAMATO NEXT100” as a grand design for restructuring our management over the medium to long term. Guided by this plan, the Yamato Group will continue to tackle social issues head on as a crucial part of social infrastructure, striving to create new logistics ecosystems that meet the needs of customers and society as a whole. By doing so, we will aim to continue to be a corporate group that is able to make sustainable contributions to the realization of an enriched society.

At the core of “YAMATO NEXT100” lies three design policies. The first design policy is to transform the Group’s management so that it can boldly address customer and social needs. Since our transition to a pure holding company in 2005, we have responded to each market under a structure that organizes Group companies by the service they provide. Under this holdings structure, we have had a certain level of success allocating management resources to develop businesses other than *TA-Q-BIN*. However, this success only ended up becoming proposals that are

optimized for specific functions, and we have not been able to make proposals that are optimized from the perspective of customers. In addition, under our layered organizational structure, it takes a considerable amount of time to make decisions. Furthermore, there have been instances where the decision-making of management has been delayed due to our inability to properly grasp the conditions of those working on the front lines. These are some examples of the demerits that have materialized under our current structure. Based on *YAMATO NEXT100*, we will take steps to revamp our existing management structure, transforming it into a structure that can boldly address the diverse needs of each customer, including retail, regional corporations, global corporations, and e-commerce platformers. We will also build management systems to help support this structure. Additionally, we will reduce the distance between management and our frontline personnel by dramatically simplifying our organization and thoroughly revising our operational procedures. Through these means, we will reclaim the strength of being able to carry out timely responses centered on the perspective of our customers.

The second design policy is to shift from our conventional management that has relied on experience and labor capacity to data-driven management. In the logistics industry, there remains a tendency to make decisions based on intuition and experience. Even for the Yamato Group, our *TA-Q-BIN* operations have relied heavily on the front lines, such as our branch offices and sales drivers, and this is something we must reflect on earnestly. For this reason, we will pursue digital transformation so that we can reduce the burden of administrative and indirect operations on the front lines and allow our sales drivers to focus more on our customers, thereby enabling them to offer the best possible service to



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our customers. This will involve digitalizing and enhancing the efficiency of and standardizing not only our *TA-Q-BIN* service but also our logistics operations as a whole. To that end, we will actively leverage AI in order to realize objective and scientific decision-making in the upstream domain on such matters as forecasting demand and business volume based on data analytics, allocating management resources, and determining pricing. By doing so, we will reduce the over burdening, waste, and inconsistencies that have occurred thus far.

The third design policy is to shift to management that creates new delivery methods by partnering with third parties, in addition to our current methods of delivery. In order to thoroughly digitalize the management resources and information that we have accumulated through *TA-Q-BIN* to meet the needs of our customers, we will pursue external partnerships so that we can evolve from our conventional approach of carrying out deliveries completely on our own. In this way, we will aim to achieve growth by creating an

open logistics infrastructure that puts the customer first.

Under these three design policies, we will improve our Groupwide productivity centered on *TA-Q-BIN*, which represents the foundation of our business, while at the same time investing management resources into our growth domains of e-commerce and logistics businesses for our corporate clients and providing optimal services and solutions to our customers. Through these means, we will strive to achieve further growth. To ensure the success of this plan, we clarified the specific actions we should undertake in order to address the 13 management challenges we face on a Groupwide level. Based on the three design policies, we will adopt a two-pronged approach of business transformation aimed at evolving our revenue structure and infrastructure transformation aimed at ensuring the success and sustainability of YAMATO NEXT100. We are already undertaking efforts to achieve these transformations over the next four years, focusing particularly on efforts we should key in on during the first two years of the reform plan.

Revamping the Group's Management Structure

We will revamp the overall organizational structure of the Yamato Group, transitioning from our current structure that is optimized based on certain functions to a new structure that is optimized based on customer segments, with the aim of enhancing management speed. To this end, in April 2021 the current holding company, Yamato Holdings, will carry out absorption-type mergers and absorption-type company splits involving eight Group companies. By doing so, Yamato Holdings will adopt a business company structure comprising the four business divisions of Retail, Regional Corporate, Global Corporate, and EC (E-Commerce), and the four functional divisions of Transportation Network, Platform, IT, and Professional Service. In other words, we will adopt our "One Yamato" management structure. Each

functional division will oversee the development and operation of functions that provide the source of competitiveness in our business divisions. This includes optimizing our overall transport and delivery process, including our networks, offices, and vehicles; evolving the Yamato Digital Platform, the *Kuroneko Members* service, and other services; and reinforcing our IT capabilities and developing specialized IT personnel. In addition, the Professional Service Functional Division will streamline administrative, indirect, and procurement operations while working to establish thorough operational standards and improve our overall operational efficiency.

Under this new structure, we will continue efforts to fortify our corporate governance by maintaining management transparency and soundness and clarifying the separation

between management oversight and business execution, thereby improving our corporate value. We will also reduce the distance between management and the front lines and accelerate management decision-making. At the same time, we will clarify the scope of authority and responsibility. Through these reforms, we will build an organization in which our frontline personnel can focus better on our customers as we continue to implement “inclusive management.”

Promoting Sustainability Initiatives as Part of Our Management Strategy

Our development as a corporate group that serves as a crucial part of social infrastructure is thanks to the support of our stakeholders, and in light of this we have continued to maintain an awareness of our social responsibilities as we promote activities to earn the trust of all of our stakeholders. With the major environmental and social issues the world will face over the next 100 years, we believe it will become even more important for corporations to engage in such issues and resolve them. Based on this belief, we have positioned sustainability initiatives as one of our infrastructure transformations under “YAMATO NEXT100.” To strike a balance between achieving the sustainable development of society and sustainable growth of the Company, we determined two visions for our sustainability initiatives after deliberations that included the participation of our stakeholders. These are “Connect. Deliver the future via green logistics” and “Through co-creation and fair business activities, help create a society that leaves no one behind.” At the same time, we identified materiality (important issues) that we should address on a Groupwide level.

The aim of “Connect. Deliver the future via green logistics” is to establish connections between people, resources, and information in a highly sophisticated manner to increase the efficiency of transportation and provide delivery services that are better for the planet, our lifestyles, and the economy. To that end, we will contribute to realizing a strong, smart society by striving toward carbon neutrality, including

In every sense, the revamping of our management structure is a means for achieving our greater goal, which is to evolve our management so that it can boldly address customer and social needs. To ensure that our frontline personnel can provide services to our customers with a higher level of engagement, it is imperative that we realize a genuine transformation among employees in management positions and among the Company’s top management as well.

the introduction of electric vehicles and other low-carbon vehicles and the utilization of renewable energy, and creating business models based on sustainable resource use and consumption. Our other vision, “Through co-creation and fair business activities, help create a society that leaves no one behind,” includes the phrase “leaving no one behind,” which is the fundamental principle of the Sustainable Development Goals (SDGs). In order to create the kind of sustainable society that the world is aiming for, we will take the lead in striving to resolving various social issues through fair business activities and co-creation with a diverse array of partners. In addition to contributing to the achievement of decent work by establishing employee-friendly working environments, we will promote efforts related to protecting human rights, embracing diversity, and ensuring employee safety and peace of mind. Additionally, we will leverage data to create shared economic and social value as well as promote sound, resilient supply chain management and co-creation. At the same time, we will focus our efforts on creating communities that are both economically and emotionally enriched.

Going forward, under the sustainability visions we adopted for “YAMATO NEXT100,” we will advance specific efforts with a view to realizing the targets we have established for each materiality and resolving international issues highlighted by the Paris Agreement, the SDGs, and other global initiatives.

Pursuing New Challenges in Our 101st Year

Our mission as an innovative company that invented the *TA-Q-BIN* service and serves a crucial part of social infrastructure is to offer sustainable new prosperity to society through the creation of new delivery methods. Guided by this mission, we must take drastic steps to transform ourselves so that we can meet the diverse needs of the

new generation and contribute to the realization of a sustainable society.

To innovate deliveries and move on to our next stage as a company, we will pursue transformation on a Groupwide basis with the determination to bring about a new Yamato Group.

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