February 14, 2025

NIPPON EXPRESS HOLDINGS, INC.

Financial Results for Fiscal Year Ended December 2024: Questions and Answers (Summary)

The financial results presentation on February 14 was conducted via online meeting. The following summarizes questions received and explanatory answers.

(FY2024 Full-Year Financial Results)

Q1. Assuming the Logistics Business was the main reason for falling short of the fiscal 2024 plan, how are you incorporating the business into the development of the fiscal 2025 plan?

A1. The main reason we fell short of the fiscal 2024 plan was due to an overestimation of volume recovery during the peak season for air forwarding. Based on past trends, we had expected a stronger rebound in air forwarding volumes, but actual results fell short of our expectations.

For fiscal 2025, we expect business profit in the Japan Segment to improve by approximately 4 billion yen. We expect this growth to be driven by a 2.5 billion yen impact from rate revisions, 1 billion yen in the real estate business, and 2 billion yen in income from a rebound in domestic logistics cargo movements and higher warehouse utilization. We also expect the forwarding business to contribute approximately 0.9 billion yen and 0.6 billion yen in air and ocean forwarding, respectively. On the other hand, anticipated cost factors include 3.8 billion yen from labor negotiations, similar to fiscal 2024.

For overseas operations, we expect business profit to increase 9.4 billion yen. Key drivers of this increase include an expected 2.1 billion yen profit increase from cargo partner, 3 billion yen from the forwarding business, and 3 billion yen from warehouse-related operations.

Q2. The priority industry figures on page 23 of the presentation materials indicate that all industries exceeded their targets except for technology, which struggled with China-bound shipments. Under normal circumstances, this would suggest higher revenue and profit. Since these industries primarily serve global customers and often involve bidding, is it possible that revenue increased while profit did not follow?

A2. Broadly speaking, yes. We prioritize securing air forwarding contracts first when approaching new customers. However, even with rising procurement costs for air freight, it's not an environment in which we can pass costs on to customers so easily. For large customers, bidding processes often require commitments on freight rates for six months to a year, which made it difficult to accumulate profit as expected.

(FY2025 Financial Results Forecasts)

Q1. Regarding the fiscal 2025 earnings forecast, you mentioned Air Cargo from Japan is expected to increase approximately 0.9 billion yen. Does this mean a 0.9 billion yen increase on top of last year's 12.5 billion yen? If so, could you clarify why this increase seems relatively small, given the your assumptions of volume growth and price adjustments?

A1. We expect a 0.9 billion yen increase in business profit for air forwarding from Japan. This includes an expected 6 billion yen increase in gross profit. We anticipate an 8% year-on-year increase in volume, with growth expected to be stronger in the first half of the year and slightly weaker in the second half. Gross profit per unit is also likely to improve by approximately 4% year on year. For overseas air forwarding, we expect volume to grow by about 7% year on year, while gross profit per unit will likely decline by about 1%. We expect greater improvement in the first half, with slight gains in the second half. (*Note that the 12.5 billion yen in operating income for air forwarding shown on page 11 of the presentation materials includes import transactions.)

Let me now elaborate on specific measures to increase volume and secure profit. To secure volume, we plan to actively bid for contracts with large global customers, including Japanese companies. However, we will also target small and medium-sized enterprises (SMEs) to enhance profitability, given that large customers do not always generate strong profit margins. Furthermore, we believe ensuring volume will strengthen our purchasing power with airlines and shipping companies. We will continue to build alliances with selected carries to negotiate competitive procurement terms.

Additionally, we plan to work closely with cargo partner, SH, and other acquired companies to expand volume and profitability while strengthening our approach to new customers.

Q2. Is the 2.5 billion yen in rate revisions in the Japan Segment this fiscal year the net impact of increased revenue from rate revisions and higher costs? Please also comment on fiscal 2024 results. Also, how does the impact of the expected 3.8 billion yen increase in personnel expenses relate to rate revisions?

A2. The 2.5 billion yen in rate revisions for the Japan Segment this fiscal year represents the net impact after deducting payments to partner companies and other partners from the rate increases applied to customers. It does not include cost increases such as personnel expenses.

The fiscal 2025 forecast assumes rate revisions for customers will total 18 billion yen, with payments to subcontractors at 15 billion yen, resulting in a net impact of 2.5 billion yen for the Japan logistics segment. The fiscal 2024 net impact in the Japan business was 3.3 billion yen. Rate adjustments for customers totaled 19.3 billion yen, while payments to subcontractors amounted to 15.9 billion yen, resulting in a net impact of 3.3 billion yen.

Q3. Could you share your insights on this business environment in fiscal 2025? I assume the earnings forecast does not factor this in, but based on your expectations and customer feedback, what potential impacts do you see from the change in the U.S. administration?

A3. We have not included such factors in our earnings forecast as they are difficult to predict. Our core strategy remains focused on achieving our long-term vision for 2037, and we are prepared to navigate year-to-year volatility. To this end, our overall policy remains unchanged. That said, we believe President Trump's focus is primarily on North and South America, Europe, and China, while India and Southeast Asia receive less attention. Therefore, we believe that as more customers shift their supply chains toward India and Southeast Asia, it is an opportune time to expand our business in India and strengthen our presence in Southeast Asia, aligning with our sales strategy.

There are three key factors that we are focusing on here. The first is e-commerce from China. Cargo movement may come to a halt if the U.S. lowers or eliminates the duty-free quota, known as the de minimis exemption for personal imports. Such a halt could result in excess air cargo capacity, significantly impacting the air transportation market.

The second factor is the potential significant impact of high tariffs, particularly on cargo movement in North and South America, where the automotive industry plays a major role. We are gathering feedback from customers in the U.S, and while certain customers have accelerated shipments, most are waiting to see how things unfold. This situation requires close monitoring.

The third factor is the potential reopening of the Suez Canal. While the canal may not reopen immediately, it could significantly disrupt the supply-demand balance in ocean cargo transportation if passage resumes in the latter half of the year. We must also monitor ocean freight rates.

(Updating Initiatives to Improve Corporate Value)

Q1. Could you confirm how to interpret the charts in the materials on initiatives to enhance corporate value? For example, on page 4, do the figures for real estate (+50 billion yen), investment (+200 billion yen), and share buybacks (+50–100 billion yen) represent initiatives planned over the two years leading up to 2026?

A1. Those initiatives are part of the remaining four years of our Business Plan 2028 and are not limited to just two years.

Q2. Your current real estate plan includes an additional 50 billion yen in sales. While this would generate gains and support an asset-light strategy, leasebacks and rental costs could have negative impacts. Will impacts will be minimal on profit and loss since the target properties are low-yield assets?

A2. Our forecasts do not include any positive or negative impacts from real estate sales since properties for sale have not yet been determined. Some cases may impact profitability, but we will prioritize business decisions from an overall company perspective.

Q3. What is the reasoning behind the 50 billion yen share buyback you recently announced? Also, can you share your approach to cash allocation if profit declines and operating cash flow falls short? Would you increase cash inflows from other sources or reduce cash outflows?

A3. The 50 billion yen share buyback is based on our target of maintaining a 35% equity ratio. Our equity ratio stands at 37.2% as of fiscal year ended December 2024, so we calculated the buyback amount by applying 2.2% to total assets. The remaining planned buyback amount is between 50 billion and 100 billion yen. We plan to implement additional buybacks as needed based on market conditions. Regarding your question about operating cash flows, we have not outlined a specific response for cases where operating cash flow falls short, as we base our approach on ensuring profit targets are met. However, instead of reducing necessary investments, we will maintain our focus on the shareholders' equity ratio and consider funding through borrowing or bond issuance while continuing essential investments. Finally, this update on our initiatives to enhance corporate value is our first step. We will continue exploring additional measures, including real estate sales and business portfolio strategies, to further strengthen our approach.

Q4: You mentioned increasing borrowings. Could you explain the reasoning behind this amount? Also, how are you approaching leverage?

A4. We set a target ROE of 8% for fiscal 2026 as a part of our efforts to strengthen balance sheet management. We estimate that to achieve this target, operating income must exceed 100 billion yen. If we generate 100 billion yen in operating income, a 30% effective tax rate would leave us with a net income of at least 70 billion yen. From there, we need to keep shareholders' equity below 870 billion yen given our ROE target of 8%. We aim to maintain a shareholders' equity ratio of around 35% by setting borrowing levels accordingly and capping total assets at 2.45 trillion yen. While we cannot fully control all these factors, we are fully committed to achieving an 8% ROE in fiscal 2026, as we believe ROE must exceed 8% to push PBR above 1.0.

Leverage is important, but we aim to maintain a shareholder equity ratio of around 35% and secure funding while also maintaining our AA- credit rating.

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