September 14, 2023

NIPPON EXPRESS HOLDINGS, INC.

IR Day 2023: Questions and Answers (Summary)

The IR Day presentation on September 14 was conducted via video broadcast and in person. The following summarizes questions received and explanatory answers.

Session 1: Pursuing Sustainability Management

Speakers:

Shinjiro Takezoe, Managing Executive Officer

Tatsuya Akama, Executive Officer

Akira Unno, Executive Officer

Hiroko Kishida, General Manager, Sustainability Promotion Division

Q1. Other companies link the rate of improvement in employee satisfaction surveys to executive compensation. This kind of initiative appears to create a greater sense of management commitment. As an industry leader, is the company discussing a link between executive compensation and employee satisfaction? Linking employee satisfaction with executive compensation may not be the only answer. What are other ways to foster a greater commitment among management?

A1. We are making plans to reflect human capital-related KPIs, engagement survey scores, etc., in executive compensation beginning with the next business plan in the upcoming fiscal year. Our president and executive vice presidents take opportunities to speak with employees in person at town hall meetings and other events as part of efforts demonstrating management commitment to ESG. Even some officers and branch managers are beginning to hold dialogues. Another issue is insufficient training on communication between middle management and employees. We hope to develop more in-depth training than traditional e-learning courses related to supportive management under our next business plan.

Q2: As a forwarder, you use air and ocean cargo transportation, but how do you intend to reduce indirect Scope 3 CO_2 emissions? The cycle of emissions reductions is likely to advance for carriers as forwarders choose low-emission ships and airplanes. As a forwarder, what kind of business partners will you choose, and what approaches do you have in mind to contribute to emissions reductions?

A2. There are several ways to calculate Scope 3 reductions, and we use the fee-based method at present. We are working to convert data for the ton-kilometer method, which will offer better visualization and refinement to our calculations. As a company that provides air and ocean forwarding, we cooperate with airlines and shipping companies in ESG initiatives to create environmentally friendly services. In Japan, we strive to strengthen our engagement with suppliers through interviews related to visualizing supplier CO_2 emissions, using environmentally friendly fuels, and so forth.

Q3. In a broad sense, logistics DX is mentioned as part of the policy package for logistics innovation, while some experts are talking about transportation capacity shortages. What are your thoughts on the current or future effectiveness of your company's initiatives in addressing the transportation shortage? How will you measure and confirm the effectiveness of your efforts?

A3: We have been having frequent internal discussions about the logistics policy package, and we believe collaboration will be one key. Discussions focus on creating joint shipments, the type of networks we should create, and so forth. We use data to decide where to locate operating hubs, analyzing net cargo movement data and other information to select optimal locations. In addition to transportation data, we consider how to create links to commercial distribution data, as well as how to provide joint transportation or more efficient transportation services, all while keeping an eye on climate data and other potential risks in the future. In terms of KPIs, our presentation today showed how we will reduce warehouse labor hours by 14%. We also believe there is room to expect effectiveness in other areas, such as improved loading rates, which are below 60% right now, and we are looking to set KPIs taking these areas into account.

Q4: Have your DX-based products begun to produce results? For example, have you seen an increase in new orders or an ability to accept contracts with higher unit prices compared to conventional transportation? Will your next business plan include non-financial KPIs that tie together with financial targets, medium-term targets, and outcomes?

A4. We have yet to aggregate the revenues generated from Eco-Trans Navi and other products that represent decarbonization DX services. While only a few dozen companies are using these services, we are receiving more interest from current and new customers, and we are planning initiatives to increase sales. We are considering non-financial value for DX as part of DX or sustainability in our next business plan, and we want to demonstrate how we create value while incorporating DX in our pursuit of each materiality.

Q5: You launched a group-wide engagement survey this year as part of your approach to human capital. How will you use this survey in the future, and to what extent do you think the survey will ultimately lead to improved productivity and enhanced corporate value? What is the timeline for data accumulation and analysis? You talked earlier about linking results with remuneration. In your next business plan, are you considering establishing engagement survey KPIs tied to financial KPIs?

A5. We hope to identify issues within each company and for the group as a whole based on the results of our engagement surveys. Then, we plan to develop measures to improve those issues under the next business plan. We are considering KPIs for issues we identify in the engagement survey, tying those KPIs eventually to executive compensation, including how much we can improve within the time frame of the next business plan. We also hope to raise engagement survey scores and improve employee motivation, which will ultimately lead to a re-energized organization and enhanced value.

Q6: Do you have any additional thoughts about, for example, increasing the ratio of sales from low-carbon and decarbonized transportation services, or explaining the relationship between those services and CO_2 reduction targets?

A6. In terms of decarbonization services, we hope to set sales targets and consider the relationship between these services and contributions to SCOPE 1, 2, and 3 reductions. In particular, we believe it may be more valuable to produce indirect effects that contribute to CO_2 reductions for our customers. We are looking into how best to express this idea as a non-financial value.

Q7: Regarding human capital, you mentioned that you conducted this year's engagement survey on a consolidated basis, but do not have accumulated data. Doesn't that make it difficult to analyze the relationship between increased engagement and corporate value? Do you have a schedule or some idea of the time frame to begin using results in management decisions?

A7. The engagement survey revealed some distinctive challenges. Therefore, we are considering goals for the upcoming fiscal year and improvements over the course of our plan. While we have not accumulated data and have yet to do a deep dive into the results, there are issues we can take on now, and we will do so beginning in the next fiscal year.

Q8: It appears that your ROIC and value creation trees have yet to be fully developed. Do you have any further comments from the perspective of how comprehensive initiatives will ultimately result in value creation?

A8. We are considering new materialities and thinking about adding more materialities related to business. To strengthen sustainable solutions, we plan to develop and quantify new materialities leading to the creation of a sustainable society and growth for the businesses of each group company. If we can create new categories, such as decarbonization products, and increase sales of decarbonization products and visualization services, we will make advancements in these new materialities and enhance our value structure tree. These are matters we will address in our next plan.

Q9: How did you incorporate your SBT commitment and quantitative analysis of TCFD in your current business plan? How will these factors be addressed in your next business plan?

A9. We expect to incorporate quantitative TCFD information disclosures in our next business plan. In particular, we already disclose quantitative data for transition risk in terms of carbon tax implementation, etc. We believe we will be able to disclose more specific and quantitative data as we move forward with SBT and other initiatives toward 2030.

Q10. I believe you made a point about having an open organization with respect to human capital. It appears that the measures described in the presentation materials are more of a response to making the organization more open in a vertical sense, but what about measures for openness horizontally? You have many consolidated subsidiaries, and it seems that the company is attempting to flatten its organization in a sense through a pure holding company structure.

A10. In terms of horizontal development, we are still exploring the issue, since this is only our second year under a holding company structure. But we do believe there are issues to address. Amid these circumstances, we launched a posting system (internal recruitment system) for specific positions, and we are looking to recruit more from within group companies. For our next business plan, we will consider expanding measures from the perspective of group management.

Q11. Looking at the overall picture of DX, it seems that DX is advancing along different time frames in different areas. In which of these areas will DX proceed fastest? What are the major outcomes you expect in terms of contributions to profits and cash flow?

A11. Digitalization over the short term will take place in the next two to three years. In the long term, we envision a world based on DX by the year 2037. To achieve outcomes over the short term, the DX initiatives listed on the left-hand side of the presentation materials will have the greatest impact. This is particularly true for driver shortages due to the 2024 problem, where we will enhance efficiency through joint truck shipments. DX for forklift and warehouse operations is also underway, and we expect those areas to produce early benefits.

Q12. Can you address one additional point regarding joint shipments? The case studies you cited give the impression that different logistics companies speak different languages in terms of software and hardware. Can this issue be resolved quickly through the use of databases, etc., or will resolution take some time?

A12. The concept is the same as the smart logistics service described in the Cabinet Office project. The key point is to create an infrastructure that combines commercial and logistics data, converting different data to a state that can be used. We are aiming to create an environment through the NX Data Station to use data across the group. Socially, it will be necessary to develop regulations for data types and formats. Looking at the process so far, we feel that it will still take some time, as the Ministry of Land, Infrastructure, Transport and Tourism and other entities have had quite a bit of trouble getting these regulations organized.

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