August 13, 2021

Nippon Express Co., Ltd.

Corporate Planning Division, IR Promotion Group

Financial Results for Q1, Fiscal Year Ending December 2021 (Teleconference): Questions and Answers (Summary)

The financial results presentation on August 13 was conducted via teleconference. The following summarizes questions received and explanatory answers.

Forecasts for the Fiscal Year Ending December 31, 2021

Q1. You made a downward revision in non-consolidated operating income for the period between April and September 2021 in your full-year earnings forecast. The figures for the period between October and December 2021 are unchanged. Are there any differences in how you are viewing expenses between July and September versus October and December?

A1. We expect costs to increase in the period between October and December due to the relocation of our head office and other factors. However, our downward revision on a non-consolidated basis is due to the increase in purchase prices related to transportation expense, fuel expense, and other items in Q1.

The overall earnings forecast takes into consideration the firm performance of our overseas and international logistics businesses in Q1, as well as the weakness in our domestic logistics business. Due to the reemergence of COVID-19 and other factors, the outlook is uncertain for economic environment and volume trends that impact our domestic logistics business. In this regard, we believe we must keep a close eye on performance trends. We left our first half forecast for operating income at ¥36 billion, and our operating income forecast for the second quarter is ¥15.9 billion. Given the pace of Q1, the hurdle for Q2 has been lowered. But there are many uncertain factors regarding Q3 at this stage, including domestic logistics trends and the state of overseas and international logistics, which are the drivers of our performance.

Q2. What is the reason for the upward revision of operating income to ¥84.3 billion for the full year (12-month conversion)?

A2. In our explanation of financial results in the prior year, we indicated that operating income for January to March was ¥27 billion on a trial calculation basis with respect to our 12-month pro forma conversion. Based on our Q1 financial statement closing, the final figure for operating income was 28.3 billion due after including net income from January through March in retained earnings. So we made a revision for the same amount.

Q3: You made an upward revision to net sales and left operating income unchanged in your full-year forecast. Is this because operating income is not keeping up with the rise in net sales, or is this because you are watching second-half trends cautiously. Also, Q1 performance in your air export freight forwarding business was higher than Q4 in the fiscal year ended March 2021, while gross profit seems to have fallen. Can you explain the background behind this development?

A3: The main reason we revised our earnings forecast was the increase in the purchase prices related to transportation expense, fuel expense, and other items in Q1. Both net sales and transportation expenses are rising for our air export freight forwarding and ocean cargo transportation businesses. While the rate of increase in transportation expense is higher for the air export freight forwarding and ocean cargo transportation businesses, we have maintained the profit margin per unit of weight, etc. This is why we revised our net sales forecast upward, while leaving operating income unchanged.

Q4: Your earnings forecast indicate an expected decline in performance in Q2 than in Q1. What are your thoughts about that?

A4: Operating income for Q1 amounted to ¥20.1 billion. That amount includes special factors related to COVID-19, including emergency cargo transportation and air cargo transportation charters. We expect the impact of these factors to diminish gradually over time. Also, the high level of uncertainty about the impact of COVID-19 in Japan on the economy means we must monitor the situation for some time to come. On a non-consolidated basis, we made a downward revision for Japan logistics, while making an upward revision for overseas logistics, as we expect this business to absorb the downward revision. Given these conditions, we left our forecast for first-half operating income unchanged at ¥36.0 billion, considering our Q2 forecast conservative in light of the ¥20.1 billion in Q1 operating income. We remain aware of our interim business plan target of ¥83 billion, and we aim to achieve that target first.

Q5: You made an upward revision in your forecast for the overseas segment operating income as well as a downward revision for the Japan segment in the same amount. Is the downward revision for the Japan segment due to a stronger sense of uncertainty about future economic trends?

A5: We revised the forecast for non-consolidated Japan logistics operating income downward, mainly due to the increase in purchase prices related to transportation expense, fuel expense, and other items. This forecast includes the special factors of emergency cargo transportation and air cargo transportation charters. We haven't changed our view that these factors will diminish gradually over time. Also, the high level of uncertainty about the impact of COVID-19 in Japan on the economy means we must monitor the situation for some time to come, and we have included this impact a certain degree.

Q6. On the whole, do you consider the forecast announced today to be conservative or highly accurate?

A6. There is a high level of uncertainty about the impact of COVID-19 in Japan on the economy, so we are taking a cautious approach in monitoring future business trends. We recorded Q1 operating income of ¥20.1 billion under these circumstances. But we decided to leave our operating income forecast unchanged, as we believe we should monitor the situation for some time to come.

<u>(Regarding the Air Export Freight Forwarding Business and Japan Segment)</u>

Q1. On a non-consolidated basis, usage fee rates in the air transportation business accounted for about 50% in the previous fiscal year. Have you been able to exercise profit management in this area? I also want to confirm your outlook regarding air forwarding cost ratios and the impact of the semiconductor shortage.

A1. Our air export freight forwarding business (non-consolidated) saw a Q1 increase in air export freight forwarding revenue of ¥27.8 billion year on year. In contrast, air forwarding costs increased ¥25.0 billion, resulting in a difference of ¥2.8 billion, and we have maintained profit margin per weight unit. In our outlook, we do not expect the situation to change significantly, at least through the remainder of the year. Our expectations reflect firm demand and demand to switch from ocean transportation due to container shortages.

The semiconductor shortage had an impact in May, mainly in the automotive industry. However, we are engaging in space control while keeping an eye on demand. We expect the impact on the automotive industry to begin diminishing in the second half of August.

Q2. The Japan logistics segment recorded a decrease in operating income for the April-June period compared to January-March period. Was the main reason for this decrease the shortage of semiconductors beginning in May?

A2. The operating income decrease in the April-June period compared with the January-March period in Japan was due to several factors. These factors included the negative impact of the semiconductor shortage on air export freight forwarding, a decrease in emergency cargo transportation volume, and an increase in costs due to recording 12 months of property taxes within a nine-month accounting period.

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