November 12, 2021

Nippon Express Co., Ltd.

Financial Results for Q2, Fiscal Year Ending December 2021:

Questions and Answers (Summary)

The financial results presentation on November 12 was conducted via video broadcast and conference call. The following summarizes questions received and explanatory answers.

(Doubtful Accounts in China)

Q1: Can you provide more details about doubtful accounts in China?

A1: The case in question is related to shipping and is already the subject of a lawsuit. On the advice of our lawyers, we will refrain from providing company names and other details at this point in consideration of the ongoing proceedings. However, it is clear in this case that the other party is in breach of agreement and we are confident that we will win the case. On the other hand, collection of the debt in practical terms may be difficult. We will continue to engage in measures to collect.

(Domestic Business Trends)

Q1: Your most-recent earnings announcement indicated a quarter-on-quarter decline in profitability for your Japan segment for Q2 (July-September) of the fiscal year ending December 31, 2021. Can you address the situation in Q2 and your outlook for domestic business in Q3 (October-December)?

A1: In Q1 (April-June), our domestic business grew due to a positive rebound in response to the spread of infection last year. However, the recovery did not continue in Q2. The continued declaration of a state of emergency, heavy rains in the Sanyo region that disrupted railroads and caused a decline in railway transportation volume, and longer-than-expected production adjustments in the automobile industry due to semiconductor shortages all combined to have a negative impact on performance. While the disrupted sections affecting railway transportation have been restored, certain of our customers who shifted to other transportation modes, such as truck transportation, did not immediately return to railway transportation. At the same time, in the automobile industry, we expect to see a gradual recovery in the October-December period for our domestic business, as information indicates that production adjustments will be eliminated gradually beginning in October in response to the lifting of the state of emergency declaration. We will be keeping a close eye on the situation.

Q2: The Nippon Express non-consolidated domestic business results for Q2 (July-September) showed that the railway utilization and motor transportation businesses were affected negatively by a decline in revenues, while labor costs and outsourcing costs increased year on year. What is the situation regarding costs and profits?

A2: We are incurring spot costs for various ongoing initiatives, including the transition to the holding company structure, preparations for the opening of new integrated locations, and consulting costs for various projects. In addition, we have incurred upfront costs to set up pharmaceutical logistics locations. We believe that these are upfront expenditures for important future initiatives and will serve as the foundation for future profit generation. The increase in labor costs is due to the impact of increased bonuses and lump-sum payments.

Our domestic business experienced a gradual recovery in Q1 (April-June). However, heavy rains affected the railway utilization business, as did poor harvests of agricultural products. Therefore, the recovery did not continue in Q2 (July-September). In Q3 (October-December), October volume for ocean and air freight forwarding has been higher than expected, and we think this will be a positive trend compared to Q2.

(Forwarding Business Profitability)

Q1: What are the profit margin trends in the air forwarding business?

A1: Although volume increased for Q1 (April -June), we saw the impact of an imbalance between transportation demand and space supply due to automobile-related production adjustments in North America and other regions in May. We took steps immediately to readjust, and the recovery has continued since June. As a result, Q2 (July-September) performance was favorable. Passenger flights declined due to tightening restrictions in China related to COVID-19, mainly in Shanghai. We are also experience restrictions on operations of employees who work at airports. These developments have had a negative impact on import and export volume, and margins decreased through July of this year. Given these circumstances, we adopted a roundabout transportation approach in East Asia, and margins have been improving since September. With this improvement, we expect margins to stabilize in all four overseas regions in the October-December period.

Q2: What is the status of ocean freight forwarding?

A2: We have concentrated on non-vessel operating common carriers (NVOCC) for ocean freight forwarding, and we have been building cooperative relationships with shipping companies over the past three years or so. As a result of our efforts, our ocean freight forwarding business is growing steadily amidst the tight supply of marine containers under the COVID-19 pandemic. We will continue to pursue and strengthen initiatives to solidify and expand business performance.

(Q3 Outlook)

Q1: What is the Q3 (October-December) profit outlook for the domestic, overseas, and international logistics businesses? Also, for which segments do you expect a profit decline compared with Q2 (July-September)?

A1: Our domestic business faced challenges in Q2, but we expect profits to increase in Q3, as we forecast cargo movement to recover gradually. We also expect our overseas business see an increase in profit compared to Q2. However, the increase in profit margin will likely not be as large as that of the domestic business, since the overseas business has been solid to date. The air and ocean forwarding business has been firm more recently, and we expect this trend to continue through the end of the year, depending on the impact of COVID-19. Regarding segments likely to experience profit decreases compared to Q2, we expect Europe will see a decrease, mainly due to a decline in apparel-related air charter volume. The positive impact of COVID-19 on air forwarding in South Asia and Oceania is likely to diminish. The Heavy Haulage & Construction business, plant maintenance, and substation work are likely to remain sluggish. We expect to incur an operating loss of about ¥400 million in the Logistics Support segment related to logistics equipment sales and ocean cargo transportation.

(Outlook for FY12/2022)

Q1. You forecast ¥20.7 billion in operating income for Q3, FYE December 2021. What is your outlook for the next fiscal year and beyond?

A1: The forecast for the next fiscal year will be discussed in the future, but this reflects is our current view. The year 2021 is an interim year for our present business plan. We are aiming for ¥83 billion on a pro forma basis, and our forecast is for ¥85.3 billion yen for the full year. This includes the impact of COVID-19. But if we assume that the positive impact continues through 2022, we believe that we can aim for ¥80 billion or more in the next fiscal year, depending on the scope of that impact. This year is an interim year in our business plan, and we will determine whether we need to revise our final-year targets. Our focus will continue to be on growth strategy for our core businesses and strategy to enhance domestic businesses in Japan as we aim to achieve ¥100 billion in operating income.

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