November 9, 2022

NIPPON EXPRESS HOLDINGS, INC.

Financial Results for Q3, Fiscal Year Ending December 2022:
Questions and Answers (Summary)

The financial results presentation on November 9 was conducted via teleconference. The following summarizes questions received and explanatory answers.

(Financial Results Outlook for the Current Fiscal Year)

Q1: Can you confirm the details of the upward revision for operating income of 10 billion yen in your revised forecast?

A1: Our internal analysis shows that the upward swing in Q3 will exert a heavy weighting, and we have not made any major changes to the Q4 plan. For Q3, we estimate outperformance of about 3 billion yen in the Logistics/Japan segment, about 4 billion yen in the Logistics/Overseas segment, and about 1 billion yen in the Logistics Support segment, combining for a total outperformance of about 8 billion yen compared to the previous forecast. The main reason for this upward swing is that unit price and marginal profit per unit in the forwarding business did not decline as much as expected.

Q2: What is your outlook for Q4? Compared to Q3, do you expect the Logistics/Overseas segment to see a decrease in profit, and the Logistics/Japan segment to see an increase?

A2: As quarterly trends go, we expect revenues to increase and operating income to decrease in Q4. This expectation is due to an expected decline in unit sales prices and marginal profit per unit and an increase in volume for overseas forwarding.

For Logistics/Japan, we have a similar view for the forwarding business as we do of the overseas segment. But, volume growth will not likely be as large as overseas, so we expect lower revenues and lower profits. We expect the Logistics/Japan segment to see lower revenues and higher profits compared to Q3 as a result of a recovery in domestic logistics and an expected increase in revenue.

(Air and Ocean Forwarding Businesses)

Q1: Tell us more about the status of contracted freight rates for the air transportation business in the second half. On pages 41 and 42 of the financial results presentation, you indicate that gross profit margin increased in some areas quarter to quarter, and that gross profit margin in the Q4 forecast for Nippon Express will not decline. Do you expect profit margin will increase as a result of lower purchase costs for spot freight rates?

A1: With respect to contracts with carriers, although spot freight rates have fallen, there has been no significant impact on contracted freight rates for the winter season. We have contracts with fixed terms, and spot rate movements do not reflect directly on purchasing. In addition, some issues regarding freight rates contracted with customers remain, including variable factors and space. So the motivation to return contract periods to their original periods (medium- to long-term) is limited.

As for gross profit, unit sales prices and usage fee unit prices have not changed much for Japan and overseas in total over Q2 and Q3. For Q4, we expect transaction volume to increase compared to Q3. But we also expect unit sales prices and usage fee unit prices to decline, and unit margins are also likely to fall. Given these circumstances, we believe the key to procurement, in terms of profit, is finding the best mix of medium- to long-term contracts and spot utilization.

Q2: Do you think gross profit margin in the air transportation business will be limited when volume increases, but that margins will improve when demand decreases?

A2: The supply-demand environment remained tight due to the impact of COVID-19. And while it was easy to maintain gross profit margins under those circumstances, we believe the tide began to turn further in September. In principle, as the supply-demand environment eases, the hurdle to maintaining marginal profit per unit of weight will increase. Under these circumstances, we believe the key (to margin expansion and margin ratio improvement) is to improve consolidation efficiency together with volume expansion.

Q3: Are the annual contracted ocean freight rates being maintained? How are these rates reflected in the company's plan?

A3: As explained during IR day, certain ocean freight rates for ocean cargo transportation are contracted for a period of one year or so, so movements in spot rates are not reflected directly. Looking at the situation between August and September, our unit sales and unit purchase prices have not declined as sharply as the spot market in comparison to the movement of spot rates. Taking this situation into account, we expect unit freight rates to decline and marginal profit per TEU to fall in Q4.

(Outlook for the Next Fiscal Year)

Q1: Please confirm your outlook with reference to page 32 of the presentation. What specific amount of decrease in project costs, etc., do you expect? Also, is it correct to understand that if the current level continues for exchange rates and fuel costs, there will be no impact in the next fiscal year? Or do you think there will be some impact?

A1: This presentation is a summary of factors we expect in 2023 (excluding normal increases and decreases) after excluding special factors, such as the forecast for the actual impact of COVID-19. Positive factors for expansion in priority industries shown in the presentation include a narrowing of operating losses in the pharmaceutical logistics business and an increase in the volume related to the semiconductor industry. And while specific amounts for the decrease in project costs and expansion in priority industries are not disclosed, they amount to the billions of yen (rather than the hundreds of millions of yen).

We expect that certain effects of the ongoing COVID-19 pandemic, such as continued high unit prices in the forwarding business, will remain, albeit at a reduced level.

Foreign exchange rates and fuel costs will not have a major impact next year if they do not change from current levels. If they change, then such changes will affect our financial performance. Under these circumstances, we believe the important points to address regarding cost increases are to collect appropriate fees and to revise contracts.

(Shareholder Returns)

Q1: What are your thoughts regarding shareholder returns? Since you made an upward revision to net income for the current fiscal year, is there a chance of additional shareholder returns? Or will you make a decision on possible additional shareholder returns in the next fiscal year?

A1: We have explained that we plan to reexamine shareholder returns once we finalize the final figures for the current fiscal year. This approach respects uncertainties in our business performance, but we will examine the issue in light of a dividend payout ratio target of 30% and a total return ratio of 50% or more for the cumulative five-year period as stated in our business plan. We recognize the possibility that there will be delays in forwarding business trends and domestic logistics recovery that may impact financial results. We also explained that we reviewed plans for the new domestic pharmaceuticals business, but we expect the business to post an operating loss for a second consecutive fiscal year. Although there are no confirmed matters, there are procedures to examine each business in collaboration with our financial statement auditors regarding possible impairment losses, particularly toward the end of the fiscal year. We will reexamine the matter of shareholder returns once the financial results for the current fiscal year are finalized, keeping in mind the targets of our business plan.

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