August 9, 2024

NIPPON EXPRESS HOLDINGS, INC.

Financial Results for Q2, Fiscal Year Ending December 2024:
Questions and Answers (Summary)

The financial results presentation on August 9 was conducted via online meeting. The following summarizes questions received and explanatory answers.

(Factors Behind the Downswing in First-Half Results)

Q1: What was the reason behind lower-than-expected gross profit unit price in Q2 for air forwarding from Japan?

A1: Volume was higher than expected, so spot purchases of space increased. In addition, strong demand from Asia led to a considerable shift in cargo space from Japan to Asia, resulting in less space supplied for cargo from Japan. This development caused higher purchase unit prices than we expected initially. This slight delay in price pass-through was another factor causing a downward swing in gross profit unit price. However, entering Q3 we began to catch up gradually in June, and we expect profitability to improve in the future.

Q2: You mentioned that the spread between rate revisions and increased vehicle chartering and subcontracting costs for logistics in Japan in Q2 worsened more than expected. What is the background and what are the future prospects here?

A2. The rate revision spread, or impact, in other words, arises within a discrete time period due to the difference in timing between rate revisions and vehicle chartering and subcontracting cost increases. For Q2, the speed of the vehicle chartering and subcontracting cost increase exceeded that of the rate revision. The recovery in domestic cargo movement has not been so strong; however, unit costs for subcontracting costs are rising. Personnel expenses have also risen, leading to higher costs despite the lack of significant growth in cargo movement.

Allow me to say a few more things about rate revision results and forecasts between the first half and the second half. The impact of rate revisions in the first half of the year was 1.8 billion yen. The plan for the second half of the year calls for rate revisions of 10.5 billion yen, with a 7.5 billion yen increase in vehicle chartering and subcontracting cost unit cost for a net effect of 3.0 billion yen. We plan to proceed with the rate revisions against a backdrop of collecting appropriate freight rates as described in our policy package, as well as initiatives to charge a fee for loading and unloading trucks, which we have been doing for free. Costs will likely increase by about 4 billion yen this fiscal year due to base increases. We want to include that factor in our efforts to pass costs to our customers.

(Second Half Financial Results Forecasts)

Q1. What is your financial results forecast for the second half, and what is your take on revenue between Q2 and Q3, as well as Q3 and Q4?

A1: If we look at our second half forecast for Q3 and Q4 separately, we project revenue of 640 billion yen for Q3 and 680 billion yen for Q4. We estimate business income of 21 billion yen for Q3 and 23.4 billion yen for Q4. Earnings should recover, gradually strengthening from Q3 to Q4.

Q2: Your financial results forecast calls for a considerable return to profit between Q2 and Q3. Is it correct to understand that profits declined irregularly in Q2 due to the time lag in price pass-through, etc., but will return to normal to some extent in Q3 and improve further in Q4?

A2. Yes, that would be the way to look at it. Comparing Q3 forecast for business profit with Q2 results, we expect a 7.3 billion yen QoQ increase for Q3. In Q2, purchase prices for air and ocean freight rates were extremely high, and we could not pass these costs on to customers in a timely manner. As a result, gross profit unit price declined, even though volume rose. We expect to pass on costs in June, July, and later in Q3, with gross profit unit price rising.

(Recent Cargo Movement Trends and Future Outlook)

Q1. The July data for air and ocean cargo transportation indicate that volume appears to have recovered. What do you expect for the continuity of this recovery? For example, can you confirm that conditions are improving for demand and the status of your customers?

A1. I will address ocean freight and air freight separately. In the ocean freight, cargo from China to Europe and the U.S. increased sharply beginning around May. Our analysis of the factors behind this movement indicates that cargo is moving ahead of schedule in anticipation of the impact of tariff hikes in the U.S. against China and port labor negotiations on the East Coast of the U.S. We expect this situation to continue for some time leading toward the end of the fiscal year. Ocean freight rates will likely remain high over the second half of the year. However, freight rates have not increased to the extent they did during the pandemic. We see signs of leveling off between July and August.

Air freight continues feel the impact of e-commerce originating from China, particularly with respect to purchases. The increase in e-commerce cargo originating from China will continue for some time. On the other hand, the shift from ocean freight to air freight has not been as strong as expected. Since ocean shipping operations and inventory adjustments among customers have settled down to some extent, we do not expect a major shift to air cargo transportation in the future. We will continue to monitor market conditions, secure space, and reduce purchases, keeping an eye on the impact of port labor negotiations on the East Coast of the U.S. and the ocean shipping and rail strikes in Canada. The trend of increasing cargo volume should continue through the end of the year, and we believe that the increase in revenue will have a positive impact on profits.

In terms of overall performance and future air cargo trends, we do not anticipate air cargo will improve or change dramatically. However, cargo demand appears to be moving up from a low point, increasing gradually in volume and sales. We expect this trend to continue. In addition to strengthening space control, we believe that the impact of rate transfer will become more significant over time, and we have incorporated these details into our current forecast.

(Rebuilding Businesses in Japan)

Q1: You plan to increase business profit ratio for your Domestic Business from 3.9% to 5.9%. For example, can you tell us more about where you expect to make progress toward 5.9%?

A1: It is difficult to say to what extent at this point; however, my own feeling is that we have quite a ways to go. We aim to achieve this 5.9% target over the next five years, and we are clear on what we must do to achieve the target. For example, we have clear policies for strengthening the company continued from our previous business plan. In addition, we will monetize our businesses in the semiconductor industry and pharmaceutical industry logistics, where we made prior investments, and we are currently considering an internal company system. We are executing or considering each measure, and we expect to begin to see results about mid-way through the business plan. We expect to see 5.9% at the end of this five-year period, but at this stage, we have yet to see results in terms of hard numbers.

The business profit ratio of the Japan Logistics segment also includes the air and ocean transportation businesses. We must consider the impact of these businesses, and we expect the air and ocean transportation markets to recover in the future. The domestic logistics cargo volume was sluggish through Q2, but we expect volume to recover in the second half of the year.

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