February 14, 2023

NIPPON EXPRESS HOLDINGS, INC.

Financial Results for the Fiscal Year Ended December 2022:
Questions and Answers (Summary)

The financial results presentation on February 14 was conducted via online broadcast. The following summarizes questions received and explanatory answers.

(Outlook of the Forwarding Business)

Q1: What is the 2023 outlook for international logistics, particularly forwarding, in terms of unit freight rates, etc. Also, what is your outlook for the air and ocean freight forwarding businesses?

A1: We expect unit prices for international logistics to decline in Q4 of fiscal 2022. The trend is likely to continue in the air transportation business through spring or later. At the same time, we expect forwarding costs to decline as passenger flights return to service and supply increases. We forecast that the Forwarding Business will maintain a certain level of profit margin per unit this fiscal year, although export revenues and usage fee unit prices will decline year on year. We project downward trends in volume in Japan and overseas. We received information from customers that volumes will stop declining and begin recovering after the summer. So, we expect the situation to change in the first and second half of the year.

It is still difficult to predict at what level freight rates will settle for ocean freight forwarding in fiscal 2023. But as we explained today, we intend to secure earnings through pricing strategies based on market data and other analyses.

Q2: How much of a negative impact on profits will the air and ocean cargo transportation businesses experience this fiscal year? Is the 14.0 billion yen reactionary decrease related to COVID-19 noted on page 24 of the presentation materials attributable directly to the air and ocean cargo transportation business? Also, please comment on the outlook for freight rates for the full year.

A2: The 14.0 billion yen reactionary decline due to COVID-19 includes the impact of lower unit prices in the Forwarding Business. Although freight rates are falling, unit prices in the Air Forwarding Business are still nearly twice the pre-COVID levels. We expect this situation to continue for some time. We expect the supply-demand balance to change in the future, and freight unit prices should settle to pre-COVID levels. But transportation demand is likely to recover beginning in the second half of the year.

See pages 54 and 55 of the presentation materials for air and ocean export freight forwarding from Japan. These pages show the Nippon Express forecasts for revenues and forwarding costs.

Q3: What are your assumptions for volume in ocean and air freight forwarding in 2023?

A3: As mentioned above, we expect a downward turn in volume for Japan and overseas in the forwarding business beginning this fiscal year. In terms of air forwarding, our current volume of air export freight forwarding business was more than 20% lower compared with Q4 last year. We are seeing continuing decreases this year, and we formulated our forecasts based on this trend. But we intend to take on the challenge to expand volume to reach a target of 1.2 million tons--the target of our medium-term business plan--by bringing in cargo of the type we have not handled in the past.

Q4: You announced an operating income target of 53.0 billion yen for the first half of 2023. How much of that target was based on the most recent conditions?

A4: Since Q4, 2022, we have seen a marked decline in volume and unit prices, mainly in Asia. This trend continued through January 2023. Our profit forecast for the first half of the year reflects the downward trend in air forwarding and other factors. On the other hand, our financial results forecast for the second half of the year is based on the assumption that trends toward recovery will continue.

(Impact of freight rate hikes, rising personnel expenses, and other costs)

Q1: Your outlook for fiscal 2023 Japan (Nippon Express) financial results indicates that lower personnel expenses and other costs, as well as lower outsourcing costs, will boost profits. (Financial results presentation, page 56) Land transportation companies announced increases in freight rates to cope with rising personnel expenses and outsourcing costs. How does Nippon Express view 2023?

A1: We believe that the business environment in 2023 will be very challenging, and that cost controls will have to be our main focus, if we are to secure profitability. We expect to see about 1.8 billion yen in impact due to freight rate revisions, reflecting 12.0 billion yen in increased revenues at this stage, as well as an increase of 10.2 billion yen in outsourcing costs. In addition, we intend to secure profits through initiatives to improve task-related profit margins, improve office productivity, and reform low-profit areas of the business.

(Page 56 of the financial results presentation) We included a decrease in personnel expenses for Nippon Express due to the spin-off of the Security Transportation Business and other factors.

Q2: You factored in a positive impact of 1.8 billion yen stemming from rate revisions this fiscal year. But on page 56 of the financial results presentation, the forecast for outsourcing costs at Nippon Express indicate a decrease of 9.9 billion yen. Is the increase in outsourcing costs resulting from the rate revisions included in your calculations?

A2: The increase in revenues due to rate revisions and the increase in outsourcing costs are both included. We expect overall outsourcing costs to decrease in response to a decrease in international logistics volume.

<u>(Impact of infectious diseases)</u>

Q1: Your forecast for 2023 reflects a rebound decrease from the impact of COVID-19 in the amount of 14.0 billion yen (page 24 of the financial results presentation).

A1: COVID-19 had a negative impact on the fiscal years ended March 2020 and March 2021. As seen at the bottom of page 24 of the presentation, the impact has been positive since the fiscal year ended December 2021. The actual impact of COVID-19 in 2022 was a positive 25.0 billion yen. Our forecast is for a rebound decrease 14.0 billion yen in 2023. The 11.0 billion yen difference represents positive impact, and we expect that impact to remain positive to a certain extent, mainly over the first half. The impact of COVID-19 is a figure built up and forecast based on past volume trends and information from customers. There are certainly some items difficult to distinguish from ordinary increases or decreases, but we view the 14.0 billion yen decrease for the current fiscal year to be a reasonable estimate.

<u>(Operating income forecast)</u>

Q1: You prepared your forecast based on the assumption that the business environment will improve in the second half of the year. What additional measures or responses are you considering if the business environment remains difficult? Also, can you comment on the extent to which you are committed to the full-year plan of 110.0 billion yen?

A1: We prepared our forecast for 2023 in consideration of projected changes in trends between the first and second half of the year. While there are likely to be both positive and negative uncertainties in the future, including global economic trends, a recovery in economic activity in China, wage negotiations, inflationary effects, etc., our basic policy is to solidify our domestic and overseas businesses to achieve our profit plan. At present, it will be a challenge to achieve operating income close to the 130.0 billion yen achieved in 2022. But we will work toward a base line of achieving at least 110.0 billion yen in operating income.

Q2: If we subtract the positive 11.0 billion yen in positive impact from COVID-19 on the operating income forecast for the current fiscal year, the actual figure is 99.0 billion yen, which is about the same as the initial target of 100.0 billion yen. Can you provide your reasoning on these figures looking ahead to the next business plan.

A2: We expect normalization in the supply chain to have a positive impact in the current fiscal year. At the same time, we expect to see a separation from the positive business impacts of COVID-19 due to a decline in forwarding prices. While inventory adjustments will have an impact, there is also a backlog and order backlog due to the shortage of semiconductors. We expect to see cargo movement in the future due to a recovery in production. Our profit forecast for the current fiscal year reflects a combination of factors in addition to the impact of infectious disease. These factors include the spin-off of the leasing business and changes in project costs. Therefore, we encourage you to note that the assumptions and premises used in forming our current business plan have changed significantly. But we generally consider operating income of 100.0 billion yen to be the base for measuring our performance.

(Dividend forecast and shareholder returns)

Q1: What considerations have you given to dividends for this fiscal year? Did you want to maintain a 400 yen dividend as in 2022, and what are your thoughts on shareholder returns in the future?

A1: Of the 400 yen dividend for 2022, 150 yen is a commemorative dividend and the ordinary dividend is 250 yen. Our dividend forecast for this fiscal year is 300 yen (ordinary dividend), so we plan to increase dividends by 50 yen. We consider future shareholder returns, including purchases of treasury stock, while keeping in mind a dividend payout ratio of 30% or more and the cumulative total return ratio of 50% or more. These figures are what we indicated in the business plan for the current fiscal year. We will also keep an eye on the business environment and the financial position of the Company.

(Changes in the business environment)

Q1: How should we look at the impact of inventory adjustments? Manufacturers have accumulated inventories due to the COVID-19 pandemic. If inventories decrease due to normalization in the supply chain, do you think volume will decrease over the current fiscal year? Or do you think the supply chain has changed compared to pre-COVID circumstances, and this will have a positive impact on the business, such as an increase in solution-oriented businesses? What kind of impact will this have on your businesses?

A1: With the COVID-19 pandemic, we believe customers have come to view appropriate inventory levels based on BCP in significantly different ways. Geopolitical risks are also causing customers to reevaluate how they hold inventory. We see these trends as positive momentum for our company. In addition to our global network, we have warehouses and other facilities in every region, allowing us to respond to a wide range of customer needs. And we believe that the ongoing changes will be a positive for us as business opportunities.

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