May 12, 2022

NIPPON EXPRESS HOLDINGS, INC.

Financial Results for Q1, Fiscal Year Ended December 2022:
Questions and Answers (Summary)

The financial results presentation on May 12 was conducted via teleconference. The following summarizes questions received and explanatory answers.

(Upward Revision to Financial Results Forecasts)

Q1. It appears that the upward revision is due to favorable international logistics. Which has had the greater impact, unit price or forwarding volume? Also, please address the differences, if any, between the business environments in Japan and overseas.

A1. In addition to certain special factors (prior-period adjustments for retirement benefit liabilities), the main reason for the upward revision has to do with international logistics. We believe the upswing in overseas regions has been significant.

We made an upward revision to our previous full-year operating income forecast of ¥6.0 billion in our Overseas Logistics business and ¥4.4 billion in our Japan Logistics business. The upward revision for Japan Logistics reflects special factors that include the impact of prior-period adjustments related to retirement benefits).

The impact of air forwarding unit price and volume on Nippon Express Co., Ltd. gross profit and gross profit ratio is as shown in the presentation materials. While the gross profit ratio has trended lower, the marginal profit per volume unit has remained the same. The marginal profit per volume unit is the same overseas, and the upswing in air forwarding is mainly due to an increase in volume in our opinion.

Q2. Would it be correct to say that the upward revision is ¥5.0 billion for the first half of the year after excluding prior-period adjustments for retirement benefits? Also, can you confirm that you will not change your basic approach to business in Q2 and beyond?

A2. On the surface, the profit increase in Q1 was ¥7.5 billion yen. If we exclude ¥2.5 billion in prior-year adjustments to the provision for retirement benefits, then profit increased by about ¥5.0 billion yen. At the same time, we made an upward revision for the first half of in our full-year forecast of ¥8.0 billion, or ¥5.5 billion after eliminating special factors. Our basic view and assumptions in our outlook for the current fiscal year remain unchanged. We expect a recovery, albeit limited, in our domestic logistics, and the tight supply-demand environment in our forwarding business will continue through this year.

Excluding special factors, our operating income forecast for the full year is ¥87.5 billion, consisting of ¥110 billion minus ¥20.1 billion for the impact of COVID-19 and ¥2.5 billion for the adjustments related to retirement benefits. Taking other factors into account, including project costs, which remain high, and net losses in pharmaceutical logistics, our calculation works out to just under ¥100 billion in 2023. In addition, we assume that the impact of COVID-19 will continue to some extent through 2023, and increased volume for the semiconductor industry, etc., will add to the figure.

Q3. Is it your understanding that the upward revision of ¥10 billion is due to the upswing in performance in Q1 and the upward revision of special factors such as provision for retirement benefits?

A3. Of the upward revision of ¥10 billion, our revision for the first half was an increase of 8 billion. Excluding special factors (prior-year revisions of retirement benefit liabilities), the upward revision was about ¥5.5 billion yen. About 60% (¥3.3 billion yen) of this amount is due to the upswing in performance in Q1. The weight of the upswing overseas, mainly in South Asia and Oceania was significant. The total of special factors and the Q1 upswing in performance (¥5.8 billion yen) accounts for the majority of the upward revision of ¥10 billion.

<u>(Q2 Outlook)</u>

Q1. You expect Q2 profit to be lower than Q1. What differences do you see the difference in the business environment?

A1. We expect Q2 profit to be ¥11.6 billion lower than Q1. In real terms, we expect Q2 profit to be ¥9.1 billion lower after excluding special factors. We foresee a significant decrease overseas, particularly in South Asia and Oceania. However, this represents a reactionary decline from the continued increases in volume after the lifting of lockdowns. We also said that we expect profit from Japan Logistics to decline ¥4.6 billion, excluding special factors. This is mainly due to an increase in bonus-related costs of about ¥2.0 billion yen, as well as a reactionary decline from the moving season in Q1 and end-of-year demand in Japan.

Q2. You mentioned that transportation demand continued to increase in the South Asia & Oceania segment after the lockdowns were lifted. What is the current state there?

A2. Initially, we expected transportation demand to settle down after the beginning of the year.

However, demand continued and represented the main factor behind the upward swing in Q1. We expect this demand to settle down in Q2 and onward, resulting in a decrease of about ¥3.4 billion in profit for Q2 versus Q1. Looking at air forwarding cargo volume on a global basis, there is little evidence of a slowdown from January to March, but the monthly trend shows a slowdown in April.

(Impact of the Situation in Russia and Ukraine)

Q1. You said that the margin per volume unit in the air forwarding business would stay at the current levels. To what extent was your business affected by the situation in Russia and Ukraine in Q1, and what is your outlook for the Q2 and beyond?

A1. The situation in Ukraine did not have a significant impact in Q1. In Q2 and onward, we expect a negative impact of ¥600 million on an operating income basis in our full-year earnings forecast.

In terms of the external environment, the lockdowns in China in April had an impact of several hundred million yen. However, we expect this to be absorbed by the recovery demand after the lockdowns are lifted in Q2. If the lockdowns are extended, or the global economy stagnates, it may take time to absorb the negative impact and we need to be vigilant regarding downside risks.

(Equity in Losses of Affiliates)

Q1. Can you confirm the equity in losses of Future Supply Chain Solutions Limited (FSC) in India?

A1. In the fiscal year ended March 2020, we posted equity in losses of FSC stemming from the spread of COVID-19. Subsequently, a rescue scheme was proposed by Reliance Industries Ltd. of India, but no progress was made. Now, due to the possibility of bankruptcy of Future Retail Limited (FRL), which is the core company of the Future group, and the increased possibility of bankruptcy of other companies in the group, there is concern that FSC receivables against other companies in the group will become bad debts. This is why we recorded a carrying value equivalent of 1.6 billion in equity in losses of affiliates.

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