February 14, 2022

NIPPON EXPRESS HOLDINGS, INC.

Financial Results for the Fiscal Year Ended December 2021: Questions and Answers (Summary)

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

(FYE Dec/2021 Results)

Q1: Last year's results were significantly higher than the forecast announced in November. What were the reasons for the higher performance?

A1: We believe it will take time to resolve the supply-demand gap in the environment of the forwarding business. However, we had a conservative view of transaction volume in November and later, so we did not make an upward revision in November. In terms of actual results, the shortage of space ocean cargo transportation and the gap between supply and demand in air cargo transportation continued. We saw a significant increase in transaction volume after the lockdowns, particularly in the South Asia and Oceania region and mainly in the automotive industry. We believe our efforts to identify needs, including spot demand, and to implement solutions led to transaction volumes that far exceeded our expectations.

(Business Environment Outlook)

Q1: What are your assumptions regarding the outlook for air cargo transportation? Do you anticipate a decline toward the second half?

A1: While demand for air cargo transportation is strong, the supply of space is not keeping pace. The gap between supply and demand continues. We expect the current supply-demand environment to continue for the foreseeable future, although there may be a certain degree of normalization due to stronger border control measures in various countries in response to the spread of the Omicron variant and prolonged closures in China. As a result, our air forwarding business should remain strong in the second half of 2022 and beyond, and we expect the impact of this supply-demand gap to remain through 2023. On the downside, we see a scenario in which the supply-demand gap resolves quickly. On the upside, we see the possibility that port congestion on the west coast of the U.S. due to challenges in labor-management negotiations could cause a shift and an increase in demand for air freight.

Q2. How do you look at a recovery in cargo movement as a precondition for your earnings forecast for the domestic business in the Japanese region?

A2: Of course, we must keep a close eye on the situation with the COVID-19 pandemic, but we assume cargo movement will recover gradually in line with the overall movement in the Japanese economy. Based on this assumption, we believe there are two points that we should watch closely. The first point is the automotive and semiconductor industries. In particular, the speed of recovery in the semiconductor shortage will be a key point for the automotive industry. The second point is consumer spending. We believe these two points require special attention with respect to transaction volume in our domestic business this year.

Q3: How much do you expect the impact of COVID-19 to change your fiscal 2022 forecast compared to fiscal 2021? To what extent do you expect a net effect?

A3: It is difficult to draw a line between the direct impact of COVID-19 and the normal increase or decrease every case. But we expect the impact of the negative rebound from COVID-19 to be 1 billion yen in 2022 compared with the previous year. We forecast a positive net effect to be just under 19 billion yen. Based on the assumption that the positive impact of the forwarding business and other factors remain, our 2023 plan reflects a positive impact of about 20 billion yen in broad terms, including the recovery from COVID-19 in our domestic business.

<u>(Business Portfolio Restructuring)</u>

Q1: You mentioned that you will accelerate your review and optimization of the area strategy in Japan in line with the characteristics of the Tokyo-Nagoya-Osaka (major metropolitan) area and other areas. Does this mean that Nippon Express must review its business portfolio? Or does this mean cost reduction efforts? Can you provide some more details?

A1: I think there are two perspectives here with respect to the restructuring or redesign of our domestic business. First, we believe our costs tend to be generally higher than those of our regional competitors due to the fact that we operate on a nationwide basis. For this reason, we will continue to work on cost reductions. In our domestic area strategy, we intend to concentrate management resources in the Tokyo-Nagoya-Osaka area, keeping an awareness of synergies with other areas both in Japan and overseas. With respect to other areas, we hope to optimize our organizations in line with the characteristics of each market. At the same time, and as the second point, we plan to strengthen the business focus of our network products, including railway, small-lot shipments, domestic marine and harbor transportation, and domestic air cargo transportation. Meanwhile, we want to leverage our strengths from the perspective of combining business offerings. We will continue to solidify our domestic business, but we intend to shift our focus from cost reductions to business restructuring or redesign, building an overwhelmingly strong position in Japan, our home market.

Q2: You mentioned the reorganization of the real estate and logistics finance businesses within the group. Can you tell us more about your plans?

A2. I mentioned real estate and logistics finance as examples of overlapping businesses within the group. There are also other businesses such as temporary staffing and automotive maintenance. In some cases, multiple companies are engaged in similar businesses within the group. We want to organize overlapping functions and businesses to create an optimal structure for group management. In addition, we want to clarify the profit structure of specialized businesses, such as the security transportation business. Here, we hope to reform and reorganizes these businesses for independence and sustainable development by speeding up decision-making and enhancing the expertise of each business.

Q3: What are your performance targets after the spin-off of the security transportation business, if any?

A3: Considering the spin-off, we set targets for revenues and operating income of 73 billion yen and 1.9 billion, respectively, for the ultimate year of our five-year business plan. To maintain and grow the top line, we plan to focus on the cash logistics business, which includes outsourcing services related to customer cash. We intend to propose not only cash transportation services, but also solutions related to all aspects of cash.

<u>(Strengthening the Forwarding Business)</u>

Q1: What factors or measures have contributed to the increase in profits unique to your company in the air and ocean freight forwarding businesses?

A1: We established the Global NVOCC Center (GNC) last year in our ocean freight forwarding business on a trial basis. The GNC performs centralized purchasing of ocean cargo transportation space, and we plan to move the function to Singapore in April this year to begin full-scale operations. The key issue in the global supply chain is to secure transportation space at a competitive rate and expand transaction volume. Our organic strategy for the time being is to supply space to customers in a stable manner and expand transaction volume, mainly by strengthening the functions of the GNC.

In terms of air forwarding, we must secure about 70% of the space against forecasts by industry, leaving 30% to meet market changes in a flexible manner. We intend to secure stable space through the best mix of medium- to long-term and short-term contracts with carriers. We procure transportation space through block space agreements and charter flight arrangements. This year, we began arranging two charter flights per week between Japan and North America to provide space to customers in Japan and other Asian countries from the perspective of providing stable supply.

The current gross profit margin for air export freight forwarding out of Japan is roughly 30%, as shown on page 15 of the presentation materials.

(Post-Revision Business Plan)

Q1: You set an operating income target of 110 billion yen for fiscal 2023. What is the scenario you envision for this target?

A1: We increased our operating income target by 10 billion yen compared with the initial plan and by 10 billion yen from in our fiscal 2022 forecast. Compared with our original plan, we expect about 20 billion yen assuming the domestic business recovers and that positive factors such as the impact of COVID-19 will remain. We expect the unallocated amount, which is an adjustment, to include cost increases and decreases for various projects. The spin-off of the leasing business is expected to have a negative impact of about 3 to 4 billion yen. We expect a negative impact of about 10 billion yen compared to the positive impact of 20 billion yen stemming from COVID-19 and other factors, resulting in a net positive impact of about 10 billion yen.

In comparison with the fiscal 2022 forecast, a slightly looser supply-demand situation in the forwarding business would be a negative factor, while we expect a gradual recovery in our domestic business to be a positive factor. At present, cargo movement in the Japan segment is weak, and we see the effects of automobile production cutbacks and semiconductor shortages. However, we expect to see a rise in recovery beginning in 2022 and further recovery in 2023.

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