August 09, 2023

NIPPON EXPRESS HOLDINGS, INC.

Financial Results for Q2, Fiscal Year Ending December 2023: Questions and Answers (Summary)

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

(Q2 Results and Second Half Forecast)

Q1: What are your assumptions for the business environment in your second half plan? For example, are your taking a conservative view of ocean and air freight forwarding, or are you assuming a recovery in volume?

A1: We do not believe the business environment for the forwarding business has reached a low point. It is not yet clear whether volumes and freight rates will fall further in the future. Therefore, it is difficult to expect a significant recovery. However, we intend to pursue initiatives to expand volume and reduce forwarding costs.

Q2: What trends or information related to the second half have you learned in discussions with customers in the automobile, electrical and electronics, and other industries that relate to your ocean and air freight forwarding business?

A2. Production is recovering in the automobile industry. We are also seeing progress in volume for emergency goods and gradual adjustments in warehouse inventories. We believe that the market will continue to improve over the second half of the year and into the next fiscal year, albeit slowly. While experts forecast negative growth of about 10% in the global semiconductor market this fiscal year, many companies are launching plans for semiconductor manufacturing plants in Japan and overseas. We expect the semiconductor industry to recover gradually in the future.

Q3: Your profit forecast for the second half of the year is slightly higher than the first half results. What led to this forecast?

A3. One of the reasons for a higher profit outlook in the second half is that we intend to accelerate rate revisions in the second half. As a result of rate revisions, we expect to raise profits from 800 million yen in the first half to 1.4 billion yen or more in the second half. Another reason is our expectation of recovery in the air and ocean forwarding businesses in the second half, although still difficult to predict. Global air volume was down about 24% in the first half compared with the previous year, while global ocean volume was about 7% lower. We factored in a certain amount of recovery in the second half of the year with the expectation that volume will not fall that far.

Q4: You mentioned that you expect a certain increase in air and ocean freight volume in the second half. What is your view on freight unit prices and margin ratios? Even if volume increases, a further decline in margin ratio in Q3 and later would make it difficult to generate higher profits compared to the first half.

A4. We intend to secure gross profit by increasing volume and decreasing forwarding costs. For air, we plan to conduct global bidding for the second half to reduce forwarding costs. For ocean, we plan to reduce unit purchase prices as we work deals more closely with certain carriers. We cannot say that forwarding freight unit prices have fallen completely, and there may be a further decline. However, we are moving forward with to lower forwarding costs as a means to secure gross profit.

While the unit price for intra-Asia is lower than that of long haul, our activities to increase volume there are yielding results gradually. Through these efforts, we intend to grow volume while securing and keeping margin ratios.

Q5. Your forecast for business profit on P.20 of the presentation shows a downward revision due to the adjustments explained on the page. Can you tell us more about that?

A5. Adjustments through Q2 resulted in an increase in expenses of 2.4 billion yen compared to forecast. Adjustments include companywide expenses as a component of expenses for the holding company. Of that amount, the main factor is an increase in expenses compared to the previous forecast for upgrading business management, building a global accounting system, and other projects under the holding company.

(View of Corporate Earnings)

Q1: Having gone through the COVID-19 pandemic, what is your view on the normalization of profit levels? In other words, what you think is your real level of performance? The current business environment is quite challenging. Do you believe profits will recover to a certain extent in the future? And how do you plan to build profits through, say, business restructure and other measures?

A1: In the past, we stated that we consider operating income of 100 billion yen to be the base for measuring our performance under Japanese standards. We have not changed our perspective. We set our pro forma operating income forecast under Japanese standards at 88 billion yen, which represents a 12 billion yen gap to that 100 billion yen figure. This difference reflects various factors that include higher personnel and other expenses that we must absorb in the future, as well and declines in volume and unit prices in the ocean and air freight forwarding businesses. In particular, we view the current state of the forwarding business to be in an extreme phase. While there are differences of opinion as to where the average for our forwarding business will settle, customer cargo movement is beginning to recover, and we believe the company has the ability to reach 100 billion yen level as the international situation normalizes. At the same time, rather than simply waiting for a recovery in the business environment, we believe the most important focus for us is to solidify the base of our businesses in Japan, particularly our integrated business. In today's financial results presentation, we emphasized the restructuring of our Japanese operations. Solidifying our base under the current structure and resource allocation would be difficult. We must take a more in-depth approach to restructuring beginning this fiscal year throughout the next business plan. In this way, we plan to build greater strength and profitability into our Japanese domestic businesses. At the same time, we do not think our overseas business is where it should be. We have high expectations from the acquisition of cargo-partner, and we intend to continue leveraging M&A to expand quickly and boldly into new regions, sectors, and businesses.

(Restructuring Japanese Domestic Businesses)

Q1: What are your internal plans for restructuring your domestic and integrated businesses? How long will it take and what measures to you have in mind?

A1: We launched a business restructuring project under our current business plan. The major thrust of this project is to restructure our integrated businesses, which includes a spin-off of a business within the group, as well as efforts to strengthen our special combined delivery business with Meitetsu Transportation, which we announced today [August 9, 2023]. We have had discussions about incorporating major aspects of this project in our next business plan, and we plan to hear recommendations by the end of the year. We are not yet ready to announce whether our next business plan will cover three or five years. If we choose five years, we will move on a timeline in which the main part of restructuring is completed by the middle of that period. However, this matter is still under discussion, and there may be some back and forth depending on the details.

(Shareholder Returns)

Q1: You commented that you are considering raising shareholder returns. To the extent you can, tell us what you are considering under your next business plan.

A1: The business plan promises a dividend payout ratio of at least 30% and a total return ratio of at least 50%. But we feel this is still not sufficient or may not fully meet the expectations of our shareholders. Our shareholder return policy itself will continue to be one of dividends and share buybacks, as it is now. We plan to review our targets for these percentages. While there are many issues to discuss, including the business environment and our cash position, I personally would like to raise shareholder returns.

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