November 13, 2023

NIPPON EXPRESS HOLDINGS, INC.

Financial Results for Q3, Fiscal Year Ending December 2023:
Questions and Answers (Summary)

The financial results presentation on November 13 was conducted via online meeting. The following summarizes questions received and explanatory answers.

(Air Forwarding Businesses)

Q1. Tell us about forwarding costs and unit sales price for air cargo in Q3. In addition, looking at the transition from Q1, it appears that forwarding costs have not fallen much and that the decrease in unit sales price happened first, leading to weakening profit margins. Will there be a change in Q4? What is your view regarding margins?

A1: Our perspective is that forwarding costs and unit sales price for in the air cargo business essentially move in parallel. We view the balance between usage fee unit price and unit sales price as being well balanced in general over Q1 through Q2 in 2023. Ultimately, an imbalance for cargo originating from Japan between unit sales price and usage fee unit price occurred in Q3. One of the factors was the rise in forwarding costs from Asia to North America, partly due to fixed-term contracts, amid a downward trend in sales prices. With respect to so-called all-inclusive contracts with fixed amounts, including surcharges, we saw a decrease in Japan in gross profit per unit due in part to a delay in applying the recent rapid increase in surcharges to sales prices in an environment where it is customary to bill surcharges separately from purchases.

Given these factors, we expect gross profit per unit to improve slightly throughout Q4 as we once again strengthen the best mix between long-term and spot related to space control while conducting price negotiations with customers in the context of rising surcharges. Overseas, the factors I just mentioned had less of an impact. Gross profit per unit in Q3 remained unchanged from Q2.

In ocean freight forwarding, we saw an ongoing trend of declining gross profit per TEU. While the business model differs from that of air forwarding, we see this as a direct reflection of the market's supply and demand environment and unit price trends.

Q2: I assume that the forecast for 22.5 billion yen in operating income for Oct-Dec is an expected increase quarter on quarter, likely due mainly to international air freight. In the past, the Christmas shopping season lasted until December for peak season demand. My impression is that demand has not picked up substantially during the peak season recently. Does the situation look promising this year?

A2: We revised our financial results forecast downward and now expect Q4 business profit to be 24.6 billion yen compared with Q3 results of 18.1 billion yen, representing a quarter-on-quarter increase of 6.4 billion yen. Of this amount, we expect the Japan Segment to post an increase of 3.6 billion yen, not in forwarding, but mainly due to a year-end increase in volume for the motor transportation business in domestic logistics. We also expect a positive rebound from the impact of damages to the transportation business stemming from the typhoon in Q2.

We expect the overseas segment to post a profit increase of 1.8 billion yen quarter on quarter, mainly due to an increase in volume for air forwarding.

With respect to our outlook for the forwarding business, we do not expect to see a large increase in profit quarter on quarter, although we do forecast a slight increase in air volume and an improvement in gross profit per unit in the range of 5% to 10% for cargo from Japan. In ocean forwarding, we are likely to see some slight growth in volume, but a downward trend in gross profit per unit, so we believe business profit will remain mostly unchanged quarter on quarter.

At the same time, we expect an increase in excess of 10% in air volume for cargo originating overseas between Q3 and Q4, while gross profit per unit will likely remain unchanged from Q3, which is the main reason for the increase in 1.8 billion yen in the overseas segment we discussed. In ocean forwarding, volume should be on par with Q3 with gross profit per unit trending downward. However, we do not expect the impact on business profit to be significant.

(Outlook for Q4)

Q1: We are already about six weeks into Q4. Can you tell us if you have a somewhat clearer picture of the outlook or whether you see Q4 to be a bit of a challenge still?

A1: We prepared our Q4 forecast based to some extent on trends in October. As mentioned earlier, we do not expect a significant volume increase over Q3 for international logistics in the Japan region. In terms of October results, we did not see any major changes to air or ocean forwarding, which was in line with our estimates. Meanwhile, ocean freight forwarding from overseas totaled 40,656 TEU in October, down from September. However, air freight forwarding exceeded 40,000 tons for the first time in some time, reaching 40,791 tons, up more than 10% compared with last month and generally in line with our estimates. The increase in air forwarding volume was due to an increase in spot cargo from Europe. Excluding this factor, base cargo movement was not as strong as it could have been. We will need to continue to monitor trends closely in November and beyond.

(Shareholder Returns)

Q1: Looking ahead to your next medium-term business plan, what discussions are taking place regarding higher shareholder returns?

A1: We are still in the process of formulating the next business plan and I have no new information today, but our stance is to continue to improve shareholder returns. As I said at the Q2 financial results presentation, we believe there is room for further consideration as to whether the current figures are sufficient. We are looking into the possibility of raising the current numbers for shareholder returns, but cannot do so unless cash flow follows. For our next business plan, we are examining shareholder returns as we refine simulations of growth investments, cash position, etc. While it is important to increase ROE, which will lead to higher PBR, we also believe that investment in growth remains essential to achieving our long-term vision. At the same time, we see enhanced shareholder returns and improved PBR as closely linked. We are in the process of examining our overall capital policy, or improved capital efficiency, from a comprehensive approach, and we will have a decision and clear answer regarding our next business plan in due time.

End