

September 13, 2024
NIPPON EXPRESS HOLDINGS, INC.

IR Day 2024: Questions and Answers (Summary)

Nippon Express Holdings, Inc. held IR Day on September 13, 2024, in both video and live formats. The following summarizes questions received and explanatory answers.

Session 2: Rebuild Our Businesses in Japan

Speaker: Satoshi Horikiri, President and CEO; Hideshi Otsuki, Managing Executive Officer; Kazuhiko Fukushima, Director and Executive Officer; Shinjiro Takezoe, President and CEO, Nippon Express Co, Ltd.

Q1. You provided an explanation about low-profit businesses. How many of the target locations are in the Japanese logistics segment, and what is the status of your initiatives?

A1. We evaluate the performance of each branch, department, and section. We consider sections with an operating profit margin of less than 4% for the most recent three years as low-profit businesses, using this as a standard for considering consolidation or termination of these businesses. Currently, we are looking at about 100 sections. Through last year, the standard for this initiative was an operating income margin of 3%. We raised the standard to 4% this year. Before consolidation or termination, the head office Corporate Strategy Headquarters enters the scene to determine whether there is room to grow revenues or ways to reduce costs. If, after exhaustive consideration, the Corporate Strategy Headquarters decides that a change in format or consolidation would be more profitable than continuing as is, we reorganize the section. We want to grow revenues and strengthen relationships with customers at levels greater than before, while also speeding up our processes and improving efficiency.

So far, we have been liquidating real estate and assets no longer used in our businesses as part of our efforts to address low-profit businesses. In the six years through last year, we disposed of low-profit real estate on a scale of more than 400 properties at a sales value of more than 100 billion yen (including the sale of the former Shiodome headquarters building). Under the current business plan, we may dispose of assets in the course of liquidating low-profit businesses, although not to the scale of the previous plan.

Q2. In what areas and to what extent do you envision rate revision effects in the future?

What do you expect in response?

A2. The biggest rate revisions right now relate to trucks, followed by personnel expenses.

We expect truck capacity to decline due to the 2024 problem, with continued increases in vehicle chartering and subcontracting costs and higher personnel expenses. In that case, we will continue efforts to pass on the cost increases to our customers.

The effect of the rate revision in the first half of this fiscal year was 1.8 billion yen, net of rate revisions and increased vehicle chartering and subcontracting costs. For the full year, we expect the impact of rate revisions to be 4.8 billion yen.

(Addendum: The business plan calls for 11 billion yen in positive impact over five years.)

Q3. You discussed upfront investments in priority industries such as pharmaceuticals and semiconductors. Is it correct to assume that the business income margin will improve as amortization expenses decrease over time, even though margin improvements will stagnate temporarily due to amortization expenses early on?

A3. The situation is slightly different in the two industries. We have already made significant investments in the pharmaceutical industry that are being amortized. So, the pharmaceutical industry is at the stage of entering a recovery phase. As I explained, the spread of COVID-19 and slow implementation of GDP guidelines in Japan have caused delays in planning and return on investment. However, we expect profits related to the pharmaceutical industry to grow in 2025, 2026, and the future.

The semiconductor industry will continue to require investments. We have already built warehouses, and we have plans to build more warehouses in the future. Meanwhile, we believe we can generate forwarding-related revenues in the semiconductor industry by acquiring businesses for the Warehousing & Storage business segment that require relatively little capital investment. We intend to utilize the strengths of our global network to handle end-to-end solutions, grow earnings, and improve operating income margins.

Q4. You discussed the sale of real estate. What is your approach to liquidating land and assets?

A4. Allow me to summarize our thoughts on real estate. Our company has a long history, and certainly, some of the land we own is relatively expensive. We basically use this land for business purposes whenever possible. If we cannot establish a logistics operation on land in front of a train station, we either develop the land as real estate or sell it. If the location is good and the yield on market value is favorable, we have the option to lease the land at a hurdle rate of return in excess of 5%. On the other hand, if we cannot use the

property in our core business and the yield as developed real estate is low, we generally decide to sell. The land we have owned for some time has a very low carrying value on the books, so we view the use of such land as a business strength in a sense. However, pursuing our recent initiatives, we have sold quite a bit of land, mainly small lots, converting property to cash.

Our current thoughts on facilities is to either own facilities and equipment on our own or borrow facilities depending on the nature of the customer and business. For example, we rent facilities to serve customers or own facilities ourselves, depending on the business. Or we may rent facilities temporarily on a short-term basis when that makes sense.

Q5. Do you think your employees understand and are convinced about the internal company system?

A5. We have been considering reorganization from a relatively early stage, being open and honest about it within the company. I have visited Tohoku and Kyushu in person, encouraging dialogue with employees through exchanges and town hall meetings with younger staff. We are working to explain carefully and deepen an understanding among employees, not only myself, but also other executives at the head office and executives in charge of the regional blocks.

Employee buy-in is very important to us. This topic is important in securing outstanding employees and raising motivation as much as possible. We completed the spin-off of our Security Transportation business, and now we are considering spinning off our Heavy Haulage & Construction business. The small-lot cargo transportation business is in the process of integration with Meitetsu Transportation.

The spin-off of the Heavy Haulage & Construction business will be a more significant change than the internal spin-off. Due to licensing issues, employees will transfer out of Nippon Express, which will result in a change in the employment relationship. In this case, the heads of the respective departments, the president, and top management have repeatedly visited the impacted sites to speak directly to employees and answer questions. During my visits, I see extremely motivated employees. I feel their enthusiasm to work hard to achieve goals in this context.

In the internal spin-off of Nippon Express, the president and others are pursuing similar initiatives, and we expect employee motivation will not decline, but rather increase.

Q6. How does the management and supervisory function work from a corporate perspective? What is your assessment of that function?

A6. The purpose for adopting a company system is to create a structure capable of moving

in line with the market of an area through the authority delegated to that company. Of course, certain restrictions will be imposed. However, the aim is to increase profits by responding quickly to market movements with considerably more freedom than the current block system.

For example, it is possible that a company may begin to move away from a head office policy. However, coordination among companies is required for national-level cross-organizational network products (domestic air cargo, moving and relocation, small-lot shipment) in the process of formulating business plans, sharing plans, and offering services. Therefore, we cannot just leave an organization to its own devices. We intend to keep an eye on details and pay close attention to the management of each company.

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