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.

Opening Session: Management Plan Initiatives to Achieve Long-Term Vision
Speaker: Satoshi Horikiri, President and CEO; Hideshi Otsuki, Managing Executive Officer

Q1. In terms of M&A strategy, what kind of target companies do you have in mind for the future? The companies acquired so far have a certain degree of presence overseas. More recently, however, we have seen acquisition deals for logistics companies in Japan. For example, the acquisition of logistics subsidiaries in Japan, etc., may also provide certain synergies.

A1. The direction of M&A will continue to be global growth as the major objective. This does not mean that domestic logistics-related companies are out of the scope. However, if we are investing the same funds, we believe that acquiring overseas logistics-related companies will lead to global growth. In this context, we think particularly in terms of strengthening forwarding businesses bases, strengthening our base of non-Japanese customers, and strengthening areas where we are still stretched thin, such as India and Africa. We also target logistics companies possessing strengths that could be important components of end-to-end solutions, which is one of our growth strategies.

Q2. Would you tell us more about the strategic initiatives presented at this IR Day? It seems you have been proceeding with strategy seriously since last year. Have there been any changes in priority within your strategy?

A2. We continue to be consistent with the previous business plan in pursuing each strategy as an effort to achieve our long-term vision. Accordingly, our framework has not changed significantly. However, we have refined our organic strategy based on a review of the past five years. Meanwhile, we understand that the capital market is looking more closely at corporate management, including the TSE's request to conduct management conscious of the cost of capital and share prices. We are very aware of these points, and we believe we are making a major step forward compared to the previous management plan. In terms of priorities among our key initiatives and targets, 3 trillion yen in revenue is a goal that we want to achieve toward our long-term vision of 4 trillion yen. The other is a 10% ROE. We understand these two goals are important targets and essential for sustainable growth. In addition, I am committed personally to our shareholder return policy of 40% in dividend payout ratio and a total return ratio of at least 55% (five-year cumulative). To achieve these three goals, we know there will be times when we may have to revise cash allocation, financial safety indicators, and other indicators.

Q3. How should we understand which areas of the strategy have been successful and which have not? Also, you provided a matrix of your business portfolio. Which businesses are making solid progress toward the business plan goals, and which are encountering challenges? I believe President Horikiri mentioned Logistics Japan as an issue, particularly with respect to domestic transportation. Would you offer some comments as well?

A3. In my presentation today, I mentioned the need to change our corporate culture. The efforts to achieve the long-term vision will be a 20-year-long process, beginning with the previous business plan. Management personnel will change along the way. However, our corporate culture must evolve if we are to make progress toward our goals. As an example, over the past five years, we have seen a significant response in mindset change at Nippon Express. While very conscious of independent profitability and managing its own business first and foremost, the company has come to embrace overall optimization. We did not achieve the numerical targets for the final year of the previous business plan. However, we believe the steps that needed to be taken were properly taken, and the evolution of our corporate culture progresses steadily. This culture will serve as a base for achieving the new business plan.

Q4. In terms of M&A strategy, there are concerns that you may be outflanked by overseas forwarders in the midst of DSV deals and other deals overseas. How do you plan to keep up with the speed of growth of other companies through M&A and other means? Will you be able to catch up? Also, what are your thoughts on whether planned investments will be sufficient when it comes time?

A4. There is a restructuring among forwarders overseas, particularly in Europe, and our competitors are becoming larger and larger. We had a sense of urgency about this when we formulated the previous business plan. I think we have been complacent about our No. 1 position in Japan, and have come to regret not competing on a global scale. Our long-term vision reflects our desire to catch up with and surpass forwarders who have a large market share in Europe and the U.S. We have completed the first step and are now in the second step of our business plan. I do not think it is realistic to expect to catch up during the term of this business plan due to the considerable gap in terms of size. However, we incorporated active M&A as in the previous business plan to close the gap as quickly as possible. The current business plan calls for M&A funded to a limit of 200 billion yen. We will revise this investment limit if necessary. If we find investment opportunities, we will invest in M&A and other means of growth, even if we must change our cash allocation.

Q5. Among your KPIs, can or should the company maintain a total return ratio of at least 55% (five-year cumulative)? Assuming you wanted to increase your M&A framework significantly, would a 55% total return really be appropriate? You are seeking to accelerate growth, but are also committing to shareholder returns. What are your thoughts on how to strike a balance and whether you will grow sustainably as you do at present?

A5. We have remained consistent with our dividend policy, and do not plan to change that stance in the future. Our commitment is firm over the business plan period of five years. Meanwhile, in terms of whether sustainable growth is possible, we still have capacity for more borrowings, for example. Our Shareholders' equity ratio is about 38% now, and our plan of around 35% is for safety reasons. We will have to revisit the situation, and we assume our rating will not be affected adversely, even if the shareholders' equity ratio drops to about 30%. We have considerable borrowing capacity, in our opinion, so we should be able to cover even the largest of investments projected currently. If the particular growth opportunity is beyond the scope of this assumption, we would engage in extensive discussions that include the option of procuring funds.

Over the next five years, we intend to maintain a dividend payout ratio of 40% and a total return ratio of 55%, while raising funds through leverage, if necessary, to support growth strategy.

Q6. Would you comment on ROIC for us? The chart on page 13 plots all businesses remaining as they are. You indicate that Logistics Support will still be below WACC in terms of return on capital as of 2028, and that while Logistics Japan shows little by way of sales growth, you aim to improve return on capital. Getting a good sense of how serious your company is about revising your business portfolio is a bit difficult. Can you disclose more specifically the status of arrangements by quadrant as your considerations progress in the future?

A6. We intend to evaluate the Group's business portfolio management on a four-point scale. We will begin with segments, then evaluate by logistics region, and next by company. In addition, we are planning to consider Nippon Express Co., Ltd. and NX Shoji according to multiple tiers, looking by division and by area. The chart on page 13 shows the first level, or a segment-by-segment direction. In terms of quadrants, we expect to determine the types of business and products to terminate under the third or fourth step. For example, the process of analyzing Logistics Japan on a company-by-company basis. Positioning each company will lead some to conclude we are withdrawing from or transferring the business. We plan to make further announcements when appropriate.

Q7. It seems that the perspective of shifting from partial optimization to overall optimization is important when talking about the need to change corporate culture. In addition, a foundation for data-driven management must be in place, if you are to improve the divisions that are bottlenecks in your value chain. Will you be able to construct such a system, and will that system be effective in terms of earnings?

A7. In terms of progress in making a data-driven framework for overall optimization, we introduced SAP for our accounting infrastructure and unified that infrastructure worldwide. In addition, we continue training to integrate usage of the system. Beyond the accounting infrastructure, our IT, in general, provides greater convenience for users and customers When viewed as a whole, our company is still disadvantaged due to the lack of a common data infrastructure. We are restructuring this infrastructure from an enterprise architecture approach. We will discuss this effort in more detail in today's Session 3. We are aware of the problem and are working on it.

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