February 14, 2024

NIPPON EXPRESS HOLDINGS, INC.

Financial Results for the Fiscal Year Ended December 31, 2023 and New NX Group Business Plan: Questions and Answers (Summary)

The financial results presentation and announcement of the new NX Group business plan on February 14 was conducted via online meeting. The following summarizes questions received and explanatory answers.

(FY2023 Results)

Q1. Can you provide more about the details and timing of the 3.1 billion yen in amortization of intangible assets and 5.6 billion yen in reversal of unused paid leave included as change factors in your financial results forecast for this fiscal year shown on page 34 of the presentation materials?

A1. We expect to record amortization for intangible assets in the second half of the year in connection with our acquisitions of cargo-partner and Tramo. We haven't completed the purchase price allocation (PPA), so the amount and amortization period have not been finalized. We assume that the amount will be around 3 billion yen.

The story is a bit more complicated regarding the obligation for paid leave. In 2021, we changed our fiscal year-end, so the fiscal period in question was April to December. We adopted IFRS standards at the end of fiscal 2022. At the time, we made a provision for the paid leave obligation and took an extra provision for the three-month period due to the change in fiscal year-end. The special factor is the gain on reversal of the difference in fiscal 2023. Unless we have a change in fiscal year-end, we don't expect this reversal to be a major change factor on an annual basis.

Q2. It appears that you didn't expect the reversal, so taking that into account, is it correct to conclude that results underperformed plan? Also, at what timing can we expect to see the rebound decrease reflected in 2024 earnings?

A2. We did expect a reversal to some degree, but the gain on reversal was larger than projected. Excluding the impact of this reversal, the margin of underperformance was significant. The impact of the reversal on 2024 earnings will be at the end of the fiscal year.

(FY2024 Financial Results Forecast)

Q1. Your plan for the current fiscal year calls for a recovery in volume beginning in the second half of the year, the balance of the recovery in the second half, rather than the first. Considering that air forwarding volume in January was slightly higher than the previous year and given freight rate market conditions, is it likely that the recovery will be ahead of schedule? Or is it better to assume a recovery in the second half, after all?

A1. Our view of the current fiscal year has not changed. The first half will be slow, and we expect to see a recovery in the second half.

Q2. Many companies are raising unit labor costs for personnel expenses in the next fiscal year. However, the factors affecting profits at your company for the upcoming fiscal year do not appear to include this cost increase. How are you treating this aspect of costs?

A2. While we haven't confirmed an increase in personnel expenses yet for this fiscal year, we included more than 3 billion yen in our forecast, which is the same amount as in the previous fiscal year.

Q3. The business profit forecast for cargo-partner ("CP") is 800 million yen, which seems to indicate a change in the business environment. Profits seem to have fallen considerably compared to your release about your decision to acquire the company. Are there any special factors, etc.?

A3. CP profit has been lower compared with the information at the time we issued the release. The CP mainstay forwarding business is dealing with a challenging business environment for forwarding, and the company's performance is likewise in a difficult situation. We hope to focus on creating synergies as quickly as possible.

(Outlook of the Forwarding Business)

Q1. What is your view of air forwarding this fiscal year? Pages 11 and 12 of the presentation materials show trends for gross profit per ton so far. It seems that you expect gross profit per ton to improve beginning in the second half of this fiscal year. Can you tell us more about the level and timing of this improvement?

A1. Purchases from airlines have remained high due to the increase in e-commerce originating from Asia. As the supply-demand balance eases with the return of passenger flights, we expect purchase unit prices to decline gradually. It is difficult to say what the level will be due to a variety of external factors, but we aim to improve our purchasing power through greater volume. The 14.6-pt decline in Q4 overseas was due to our inability to link unit sales price and profit amid weak volume. We plan on several measures, including price shifting, to improve margins.

To add some more information supporting our outlook, gross profit per unit in the forwarding business will likely decline year on year. We expect volume from Japan to increase mainly in the second half of the year, with ocean transportation growing about 4% year on year and air volume growing about 1%. Overseas, we expect ocean transportation to grow by about 4% in both the first and second half of the year. Air volume will probably increase slightly less than 5%, and we expect growth to be greater in the second half of the year than in the first half.

Q2. In the past, purchasing has been conducted in bulk for several months' volume via BSA, etc. At present, do you purchase and sell mostly on a spot basis?

A2. While some contracts are long-term, a year or six months, spot purchase contracts are made on a case-by-case basis based on the volume of cargo demand.

Q3. You mentioned that container freight rates are rising due to the Suez Canal transit restrictions. How did you incorporate the impact of this situation into the plan for this fiscal year? Please also address the situation related to the increase in air cargo transportation inquiries.

A3. The Suez Canal and Panama Canal restrictions have increased transport distances. While the number of vessels in operation has increased, cargo movement itself has not been that strong. So, a shift to air cargo transportation has not occurred to any particular extent at present. (See QA.1 in this section regarding the Company's view on air forwarding business performance outlook)

[Text below relates to the Company's business plan]

(New Business Plan in General)

Q1. How did the current plan emerge from the framework of the previous business plan? It seems you are following the long-term vision presented in the previous plan. Should we conclude that the goals of 3 trillion yen in revenue and 150 billion yen in business profit are essentially unchanged from the 3 trillion yen in revenue and 5% operating income margin presented in the long-term vision of the previous plan? Or have you lowered your sights a bit, given the difference in accounting standards?

A1. The basic policy of this plan has not changed from the previous plan. Our long-term vision remains the same. We do not see the targets as having been lowered, but rather set as originally envisioned.

Q2. What measures are included in this plan to recover from the weak performance of 2023? You must raise profit margin and other factors in the Japanese business by significant amounts, but it doesn’t appear that the general framework for measures has changed much. Is there anything in particular you want to emphasize as a recovery strategy?
A2. We are basing our growth strategy on account management and end-to-end solutions to achieve a business profit margin of 5.9% in our Japan business. On top of that, we continue to consolidate low-profit offices, improve administrative efficiency, pursue our real estate business, and implement rate revisions--the same measures we have followed to date. Further, we hope that using an internal company system will result in management tailored to the characteristics of each area and improve capital efficiency further.

Q3. Although the performance in 2023 was weak, environmental factors were a major influence. Given the initiatives to date and the initiatives that will continue, can we conclude that you will achieve the 150 billion yen target if the environment returns to normal?
A3. That is our assumption.

Q4. During the review of the previous business plan, you mentioned a 56% reduction in back office costs compared to plan. What are your targets for back office costs in the new business plan? What changes are you looking to make in response to the results of the previous plan?
A4. Two of the indicators we used for back office cost reduction in the previous plan were organizational consolidation and improved productivity. We believe we secured a certain outcome in terms of employee numbers, etc., in connection with organizational consolidation. However, using overtime and temporary staffing as indicators of administrative productivity, we found certain areas of costs difficult to identify, which we consider a point for improvement. We intend to continue our efforts under the new business plan, extending these measures across the entire group. Page 20 of our presentation outlines the impact of reductions in back office costs as a component of corporate operational streamlining and rate revisions. While ascertaining how much we have saved in back office costs exclusively is difficult, we will set KPIs for each measure, including office automation and RPA.

Q5. Excluding business environmental factors, how much of your business plan includes profit generation through cost reductions, rationalization, and other actions by the company? Please address overseas in particular, as it is not apparent what internal factors are included.

A5. This may not be a direct answer, but we did not embrace ROIC management across the organization in the past. We managed business with an emphasis on profit. Now, we aim for an ROE of at least 10%, focusing more on ROIC-oriented management. For the first time, we disclosed actual and target ROIC values for each segment in our presentation. While I cannot explain at this time how much of an effect we expect, we want to pursue business portfolio management while looking ROIC, aiming to make the best use of our resources.

We anticipated and incorporated specific costs, including employee system reform costs, in Business Plan 2023. Fundamentally, we did not project specific costs under Business Plan 2028.

Overseas, business profit margin is already at the 5% level, so our plan is to increase profits by increasing volume and maintaining margins.

Q6. Tell us again about the competitive environment as you increase your market share in global air and ocean freight forwarding. Your company hopes to increase volume, but what is your strategy for increasing market share, and what are your strengths? Will you have to drop prices to increase volume, or will that be a temporary situation?

A6. We already have a certain market share in Japan. Overseas, we will continue to increase the volume of goods across the group, including our acquisition, CP. Our strategy is to leverage this volume to strengthen bargaining power with shipping lines and airlines. Overseas, we do not yet have the volume or status to compete with global forwarders. Our first order of business will be to increase volume steadily to establish a better position for negotiations.

(M&A and PMI)

Q1. Your plan for CP this fiscal year is to post a business profit of 800 million yen. What profit improvement do you expect over the five years of your business plan? Can you share specific numbers and areas of growth?

A1. 2023 was not a good year for CP, and it is difficult to show profit change trends leading to our 2028 target. First, we must achieve our 2024 target, and then we want to take some

time to show specifically how we intend to accumulate profits leading to the 2028 target. We expect business performance to recover in 2024 compared to 2023, contributing to business performance over the five years through 2028. And we will continue in our efforts to achieve this goal.
You can refer to the M&A revenue composition plan, which includes CP, on page 9 of our presentation. The M&A business profit plan is on page 10.

Q2. What areas of M&A are you considering in the future? The numbers are included in your cash allocation, but in terms of scope, what are your thoughts on larger-scale acquisitions?
A2. The projects we consider will be those that contribute to growth in the global market and strengthen our competitiveness in logistics and forwarding. There are multiple perspectives to consider, including companies with a primarily non-Japanese client base, which we do not have. In terms of regions, one of our top priorities is to establish a presence in the Indian market. But we will consider acquisitions other than India, if such leads to future growth.

(Capital Policy and Cash Allocation)
Q1. Looking at the cash allocation on page 32 of the presentation, if we assume a shareholder return of 240 billion yen, a dividend payout ratio of at least 40%, and a total return of at least 55%, we would expect dividends of approximately 170 billion yen and share buybacks of around 68 billion yen over five years. Does your approach continue to emphasize stable dividends? Also, if operating cash flow were to exceed forecasts, can we expect opportunistic share buybacks?
A1. We expect to return between 170 billion yen and 180 billion yen in dividends to shareholders and conduct around 60 billion yen in share buybacks for a total of 240 billion yen in shareholder returns. As cash inflows increase, we will use the funds for growth investments, including any M&A projects, major investments in priority industries, etc. Whether we use these funds for share buybacks or growth investments depends on the status and timing of cash inflows. Our plan also calls for stable and continued dividend payments.

Q2. Does the 200 billion yen in M&A investments reflect CP's earn-out?
A2. The earn-out is not included.

(Business Portfolio Management)

Q1. In terms of business portfolio management, how do you define specifically what a low-profit business is, and what quantitative criteria do you use? Also, how much improvement in ROIC do you expect after liquidating low-profit businesses?

A1. In terms of specifics, we must analyze and categorize each business in more detail. But as an example of quantitative evaluation, we believe that Nippon Express and the security transportation business fall into the low-profit category. We also believe this applies to NPL, for which we recorded impairments this fiscal period. We will conduct qualitative assessments in combination with quantitative evaluations, considering whether to rebuild or withdraw from the business in question. Our analyses are still a bit rough. We continue to analyze businesses, regions, etc., within Nippon Express, and we intend to formulate a plan once we have a more detailed picture of the situation.

Q2. Is it correct to understand that improving ROIC will be difficult without drastic measures based on regional differences, and that one important step to this end is to introduce an internal company system?

A2. Yes, that is an acceptable understanding. Many customers in the Tokyo, Nagoya, and Osaka areas tie directly to our global business. There is room for growth in this area, so we intend to make growth investments in the region. For other regions, we plan to focus more on profitability. One of the aims of an internal company system is to separate regions and devise response measures.

Q3. How have you factored this internal company system into your plan, and what impact on profits should we expect?

A3. At this time, we haven't factored specific figures into the plan. Over the course of 2024, we will continue to study the feasibility of adopting an internal company system. We do believe that an internal company system will foster a stronger business in Japan and evolve business portfolio management, but we have not defined a quantitative target as profit contribution.

Q4: You issued a release about transferring the special combined delivery business to Meitetsu Transportation. What is your assessment of the special combined delivery business and the background of this transfer?

A4: We view the special combined delivery business as an important mode of transportation in end-to-end customer supply chain support, which is one of our business policies.

However, the business environment is challenging in Japan. We have been working with the Nagoya Railroad Group and Meitetsu Transportation for the past 10 years in finding ways to strengthen the business. In the process, we came to the conclusion that it would be beneficial for both companies to integrate their respective businesses and refine the respective strengths. Although the special combined delivery business will be removed from consolidation on our part, we will continue to recognize the business as one of our important logistics services. And we will continue to refine the services offered.

End