NIPPON EXPRESS

We Find the Way

September 9, 2021

IR Day 2021: Initiatives to Improve Capital Efficiency
Session 3
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Nippon Express Co., Ltd.

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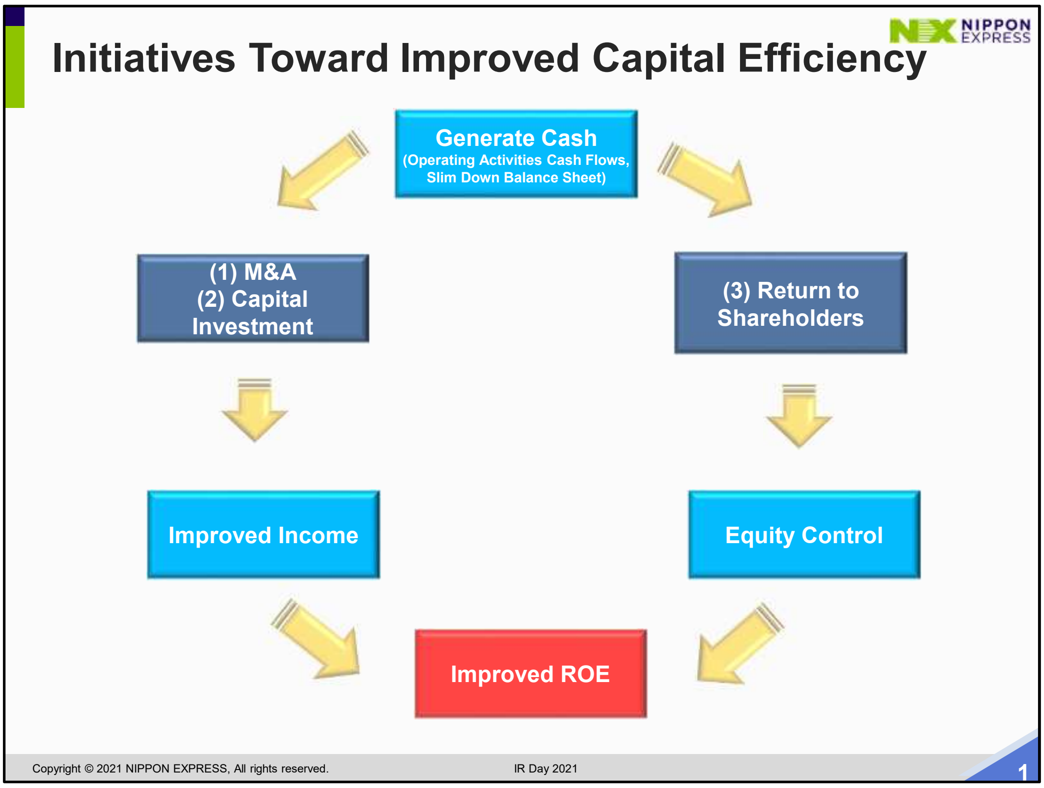
Our current business plan calls for an inorganic growth strategy, the reinforcement of functions to support challenges, and ESG management for sustainable growth and improved corporate value. The intent behind these initiatives is to build a stronger foundation for earnings through business growth strategy and to achieve our long-term vision. Our aim is to achieve our long-term vision through a two-tiered structure of business growth strategy and initiatives designed for our long-term vision.
Our inorganic growth strategy as an initiative to achieve our long-term vision means, simply speaking, growth into a global mega-forwarder through M&A. To achieve this strategy requires two preparatory steps, namely, (1) optimizing our portfolio through selection and concentration and (2) slimming down our balance sheet while engaging in cash flow management. In other words, the goal is to generate cash by streamlining our balance sheet, to execute M&A without causing balance sheet bloat, and to improve ROE by replacing assets with more profitable assets and by and optimizing our business portfolio. The reasons I chose the title, “initiatives to improve capital efficiency,” for this session is that we have set 10% as our target for ROE in our new business plan, reflecting the high priority we place on improving ROE. Capital policy, including shareholder return, is an important management topic for us. Today, I will explain the progress of our efforts to improve capital efficiency, as well as our strategies as they relate to business portfolio and M&A.



This slide provides a visual illustration of what I just explained. First, we plan to allocate the cash generated from operating cash flows and balance sheet streamlining to M&A, which is the most important factor for achieving inorganic growth. Second, we plan to make capital investments of ¥450 billion, including asset liquidization, over the five-year period of our current business plan, investing aggressively in capital that will contribute to improved profitability. Third, we will strive to return profits to shareholders based on our capital policy, aiming for a dividend payout ratio of 30% or more, a total return ratio of 50% or more (cumulative total for five years), and an equity ratio of approximately 35%.

In this way, we will endeavor to create a positive cycle by utilizing cash generated, improving earnings, and controlling equity capital, which will lead to higher ROE.

Generate Cash (Results)

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(1) Slim Down Balance Sheet

·Liquidization of the Mizonokuchi Distribution Center and pharmaceutical locations ¥50.0 billion
*We are currently developing a base in the Chubu region using a liquidization scheme.

·Spinning off leasing business Reduction in interest-bearing debt Approx. ¥140.0 billion
*We will also continue to restructure business portfolios.

(2) Sale of Strategic Shareholdings

·FY2019 (Results) ¥1.0 billion
·FY2020 (Results) ¥11.6 billion
·FY2021 (forecast) ¥5.0 billion
*From next fiscal year, we will also trim strategic shareholdings

Next, I will discuss the progress of our scenario to improve ROE.
First, allow me to report on the major balance sheet streamlining projects for cash generation.
First, we liquidized the Mizonokuchi Distribution Center and pharmaceuticals and medical business locations, generating approximately ¥50 billion in cash. This year, we decided to liquidate our location in Yokkaichi, Mie Prefecture as a new project. The total effect of this liquidation will be slightly less than ¥8 billion. In addition, we are considering several other liquidation projects and will continue to pursue the use of liquidation schemes in the reorganization of our operating locations.
Second, we established a new joint venture company for the Nippon Express leasing business together with Tokyo Century Corporation and Sompo Japan Insurance, Inc. We expect the associated planned reductions in interest-bearing debt and lease assets to have a ¥140 billion impact on slimming down our balance sheet. At the same time, we believe this joint venture will strengthen and expand our business through the synergistic effects of the alliance with Tokyo Century Corporation. We will continue to review our business portfolio in conjunction with progress in the transition to a holding company structure. One key theme here will be to reorganize and integrate overlapping businesses and functions among group companies, as well as to restructure the organization to maximize performance.
Third, we sold ¥1 billion (46 stocks) in strategic shareholdings in 2019, ¥11.6 billion (16 stocks) in 2020, and we expect to sell ¥5 billion this year. Our basic policy is to examine the logic each of our strategic shareholdings regularly, continuing to negotiate with our shareholding partners, to monitor the timing, and to engage in further reduction in strategic shareholdings.

Cash Generation Activities (Results)

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(1) Capital Investments and M&A

·M&A results M&A with U.S. Company MD in FY2020
·Capital investment
FY2020 (results) ¥123.0 billion (including ¥31.7 billion in pharmaceuticals)
FY2021 (planned) ¥70.0 billion

*Looking forward, we will leverage generated capital for aggressive investments targeting growth.

(2) Initiatives Toward Improved Capital Policies

·Achieve a dividend payout ratio of at least 30% and a cumulative total return ratio of at least 50%.

	Annual dividend per share (¥)	Total dividend (¥100 million)	Dividend payout ratio (%)	Share buyback (¥100 million)	Total return ratio (%)
FY2019 (results)	155	145	83.76	100	141.08
FY2020 (results)	185	170	30.59	100	48.31
FY2021 (forecast)	185	168	43.22	100	68.92

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Next, I will explain how we are using our cash.
The cash we generate will be used for investments in growth, including M&A and capital investment, as well as for shareholder returns in accordance with our capital policy. I will explain the details of our M&A activities later in this presentation.
During fiscal 2020, we made capital investments of ¥123 billion, including liquidization mechanisms involving four pharmaceutical distribution centers. This year, we plan to make another ¥70 billion in capital investments. We will continue to invest aggressively for growth, focusing on investments in the five priority industries defined in our business plan.
The third point is related to shareholder return, as described in this slide.
We will continue to strive to enhance shareholder returns, aware of our targets to provide a dividend payout ratio of 30% or more and a five-year cumulative total return ratio of 50% or greater, as stated in our business plan.

Improve Business Indicators

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(1) Slim Down Balance Sheet and Improve Business Indicators

·**Use transfers of our leasing business to slim down balance sheet and improve business indicators.**

	Results	Results	Results	Forecast
Fiscal year	FY2018	FY2019	FY2020	FY2021
Ratio of revenue to net profit	2.3%	0.8%	2.7%	2.3%
Total asset turnover	140.0%	136.2%	132.0%	141.7%
Financial leverage	284.6%	282.0%	280.7%	264.7%
ROE	9.2%	3.2%	10.0%	8.6%

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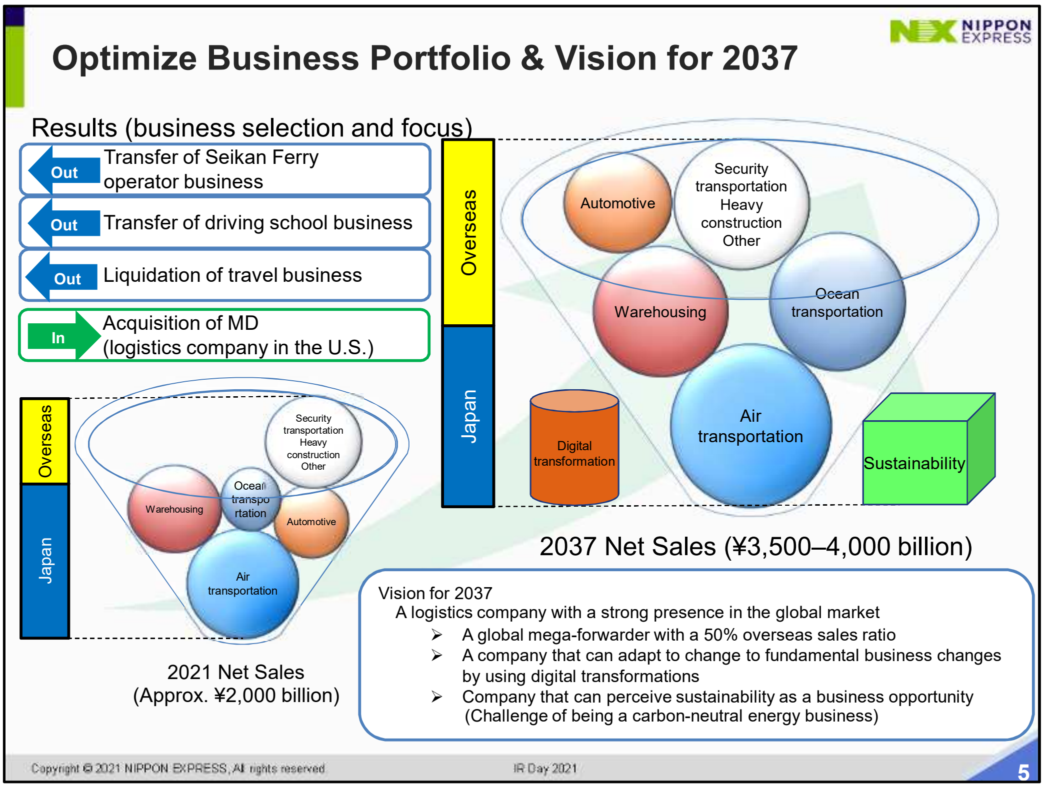
We have broken down ROE into ratio of revenue to net profit, total asset turnover, and financial leverage.

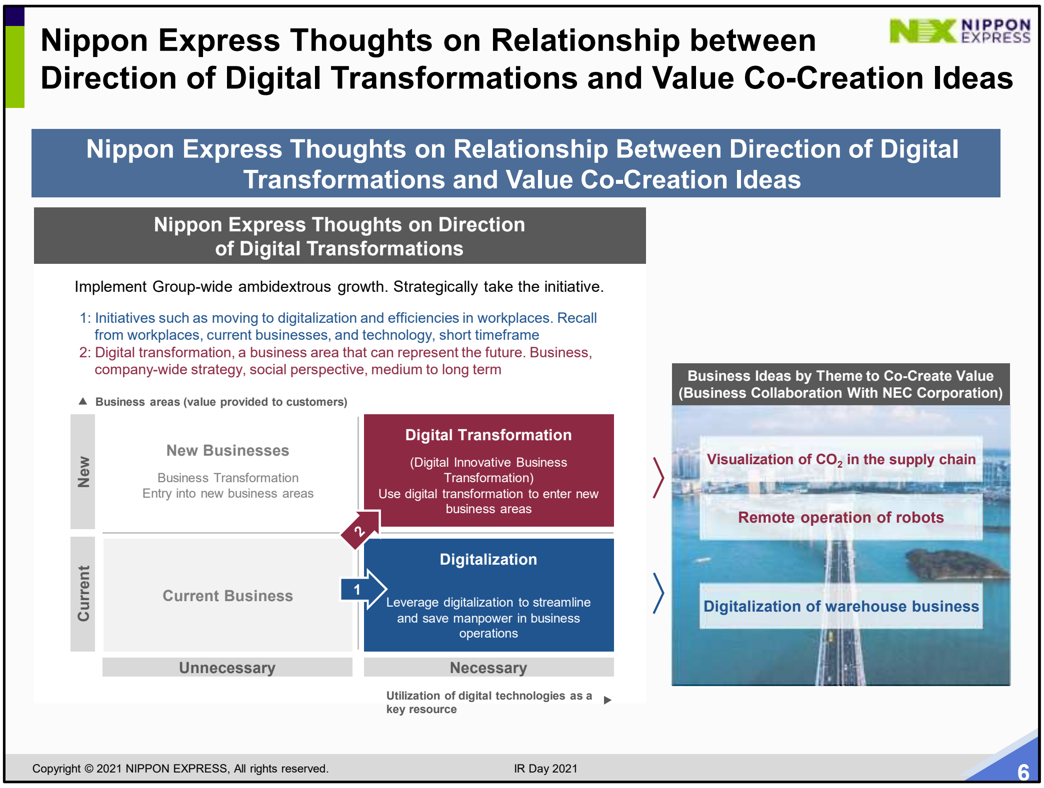
In fiscal 2020, we achieved our business plan ROE goal of 10%. However, this was due to the impact of the spin-off of the leasing business and extraordinary gains recorded for the transfer of the Nittsu Driving School business.

Our 2021 forecast is for an ROE of 8.6%, but this figure is based on pro forma figures for the January-December period and includes the loss on disposal of three operating location liquidization projects implemented during the fourth quarter of fiscal 2020. Excluding the impact of these transactions, our revised figure for expected ROE is 9.7%.

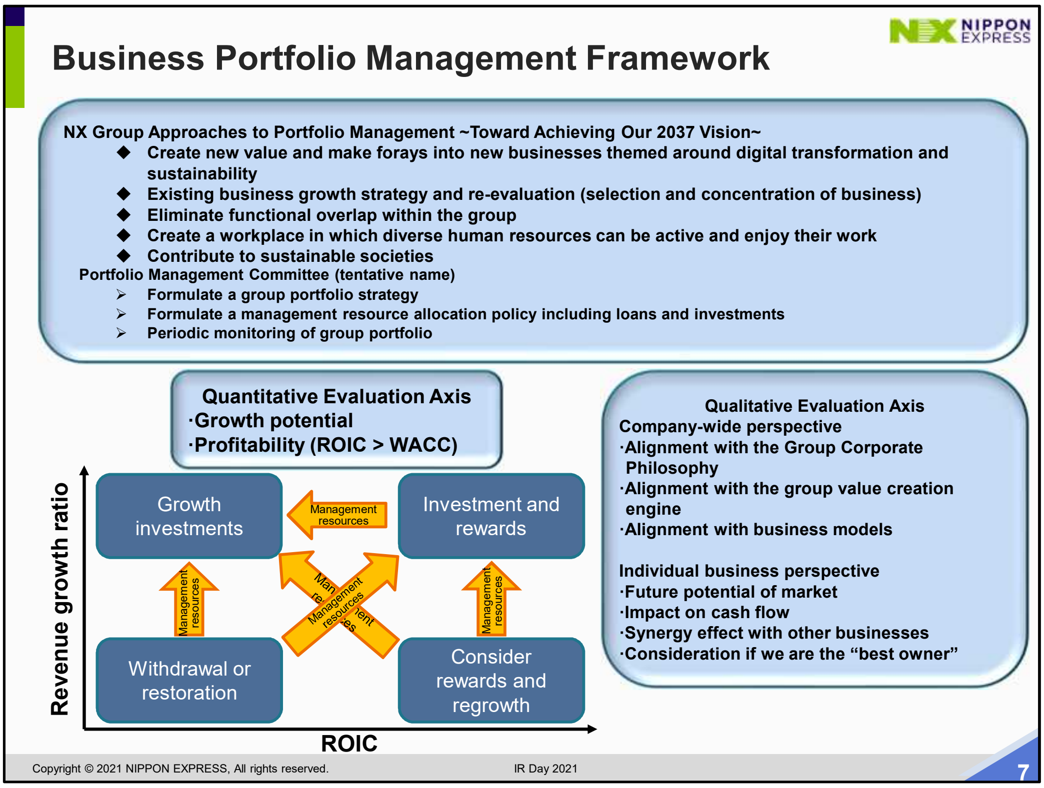
In our progress to improve capital efficiency, we are seeing results in terms of cash generation, and we are getting ready to take the next step. The next matter will be to use the generated cash to invest more into core and profitable businesses (M&A), to replace assets, or to optimize our business portfolio. As another perspective, we intend to improve ROE by generating cash and controlling equity, all while ensuring safe operations.



This slide shows our current business portfolio, the concept of the business portfolio we are aiming for in 2037, and our long-term vision.
First, with respect to optimizing our portfolio through selection and concentration, we sold Seikan Ferry and our driving school business in the prior fiscal year. We also liquidated our travel business and acquired MD Corporation in the United States. We will continue to optimize our business portfolio through selection and concentration as we move forward in the transition to a holding company structure.
In April of this year, we announced that we would begin considering the spin-off of our security transportation business. We are proceeding with this spin-off based on the judgment that we must clarify our responsibilities and roles as a specialized operating company, as well as the need increase our expertise and speed in responding to the changing times. As a company organized directly under the holding company in the future, we intend to become more specialized and competitive than ever before. From a long-term perspective, we will consider growing again as a company responsible for cash transportation as social infrastructure.
Next, with respect to the business portfolio envisioned in our long-term vision, we aim to become a global mega-forwarder with sales of ¥3.5 to ¥4 trillion, half of which will be overseas sales, by 2037. We believe that it is essential to grow our air transportation, ocean transportation, and other logistics businesses, including M&A as a means for growth, particularly as related to our ocean transportation business. Furthermore, we envision that our future business portfolio will incorporate new businesses related to digital transformation (DX) and sustainability, in addition to our current logistics-focused businesses. Beginning in the mid-2030s, the logistics industry is expected to undergo a rapid transformation as digital technologies evolve and AI is adopted to a greater degree. These developments will lead to innovations including automated driving and automated/unattended warehouse operations. As the logistics industry changes from labor-intensive operations to machine-based operations, we believe we must predict the future transformations driven by DX, consider the significance of our existence and businesses in this context, and begin to prepare for the future.



To give you some idea of our DX initiatives, we are currently working on a project to formulate a strategy for our company assuming the arrival of DX. Here is our grand design for the future from the two perspectives of short-term digitalization and increased efficiency in the workplace and medium- to long-term future business domain pillars. In June this year, we entered into a business tie-up for joint value creation with NEC. Under this alliance, we initiated studies under the following specific categories: visualization and digitalization of warehouse operations, oriented toward the short term, and remote robot control and CO_2 emissions reductions in the logistics process toward sustainable societies, oriented toward the medium to long term.



One of the objectives of the shift to a holding company structure, which is scheduled for next January, is to design an optimal business portfolio for the group and to allocate appropriate management resources quickly to improve profitability. Given this perspective, we establishing a business portfolio management framework, aiming to drive business portfolio management throughout the group.
We hope this framework will serve as a basis for dialogue with investors, while also serving as a standard set of evaluation and decision-making criteria for the holding company and other companies in the group.
We plan to use clear criteria for judgments based on quantitative evaluations that incorporate the cost of capital, qualitative evaluations such as consistency with corporate philosophy, etc., and the market potential considering growth potential, competitive environment, etc. We will use this criteria, for example, when allocating management resources and formulating strategies related to entry into new businesses such as the DX and sustainability domains and evaluations of existing businesses based on selection and focus.

M&A Strategy (Toward Achieving Our Long-Term Vision)

(1) M&A Policy

- M&A for ~"Dynamic Growth"~
  ⇒Growing into a global mega-forwarder
  (secure global network, management foundation, non-Japanese customers, etc.)

(2) M&A History (Since 2011)

Company Name	Region	Acquisition Date
AGS	The Americas	March 2012
APC	East Asia	October 2012
Franco Vago	Europe	February 2013
Nittsu NEC Logistics	Japan	December 2013
Nittsu NP Logistics	Japan	January 2014
Wanbishi	Japan	December 2015
Traconf	Europe	March 2018
MD	The Americas	September 2020

8 companies

・Investment Approx. ¥160.0 billion

(FY2020)
・Revenues ¥217.2 billion

・Operating income ¥12.1 billion
(Operating income ratio 5.6%)

Next, I will explain our M&A strategy as a means to achieve our desired business portfolio.
For us to become a global mega-forwarder, we must leverage M&A activities to not only build a global network, but also to build foundations for global management, for non-Japanese global customers, and for our forwarding businesses.
We have been working to expand our business through M&A. Between 2011 and 2020, we entered into eight M&A transactions in Japan and overseas, making these entities into subsidiaries. Total investment in these projects amounted to approximately ¥160 billion. In fiscal 2020, we these entities recorded revenue of ¥217.2 billion, operating income of ¥12.1 billion yen, and an operating profit margin of 5.6%. While we recorded goodwill impairment related to six of the eight entities, over the long term, the majority of these companies increased earnings since acquisition and have made significant contributions to our business.

M&A Strategy (Toward Achieving Our Long-Term Vision)

(3) Initiatives to Create Synergies Through M&A

- Merged three Italian companies (Nippon Express Italia, FrancoVago and Traconf), and expanded on a global scale acting as a control tower for the fashion business in the Nippon Express Group.
- Constructed a global pharmaceutical logistics network by combining the logistics functions of MDL in the U.S. with the Group's international transportation network.

(4) Strengthen Post-Merger Integration (PMI) System

- Strengthen domestic and overseas sales capabilities to increase the synergy creation effect.
- Create mutual sales synergies through collaborations between acquired companies and overseas blocks

(5) Initiatives to Grow Into a Global Mega-Forwarder

Recent M&A market trends

- European mega-forwarders: K&N acquisition of APEX, DSV acquisition of Agility
- Asian mega-forwarders: SF acquisition of Kerry

⇒Heightened acquisition costs, M&A focused solely on increasing market scale (share)

・Keep away from price competition, and seek collaboration in order to pursue synergies

・Add digital transformation and sustainability-related businesses as M&A targets, and shift to a more forward-looking M&A strategy

After integrating the three companies in Italy (Nippon Express Italia, FrancoVago, and Traconf), we have positioned the new company as a control tower for the Nippon Express apparel business, aiming to expand our volume in the apparel industry on a global basis. And with the acquisition of MD, which we acquired last year, we have obtained domestic logistics capabilities in the United States, which the world's largest consumer of pharmaceuticals in terms of demand. By combining these new capabilities with the group's international transportation network, we are building a system capable of handling higher volume in the pharmaceuticals business.

We will continue to improve our post-merger integration (PMI) systems to accelerate and maximize the impact of synergies that arise from acquisitions. However, upon reflection of our past PMI efforts, we believe that our sales activities focused mainly within the acquired company and the local market. Now, in addition to PMI activities locally, we are assigning sales staff from acquired companies to work overseas and in blocks throughout Japan. Further, we are accumulating a base of knowledge through the central collection of information in head office sales departments, providing centralized communications and support for projects. At the same time, we encourage the acquired entity to coordinate closely with blocks overseas. In this way, we are building a structure for creating and accelerating mutual sales synergies. Further, we will continue to refine and streamline the M&A process, focusing on PMI systems, while we also build cooperative relationships through M&A, business alliances, and other means, paying particular attention to airlines and ocean forwarders.

Recent M&A trends among global mega-forwarders include the acquisition of APEX by K&N and the acquisition of Agility by DSV, both European companies, and the acquisition of Kerry by SF, an Asian mega-forwarder. Although the acquisition prices were steep at around 15 times EBITDA (11 times for Kerry and 18 times for Agility), we intend to make a break from the high-priced M&A battles, seeking collaboration with a view to pursuing synergies.

M&A Strategy (Toward Achieving Our Long-Term Vision)

Global Forwarder Rankings Top 10

FY2019 6th place

Rank	Location of Headquarters	Provider	Gross Logistics Revenue (Millions of yen)*	Marine (TEU)	Air (Metric tons)
1		DHL Supply Chain & Global Forwarding	3,021,785	3,207,000	2,051,000
1		Kühne + Nagel	2,863,845	4,861,000	1,643,000
2		DB Schenker	2,141,547	2,294,000	1,186,000
3		DSV Panalpina	1,588,811	1,907,126	1,071,266
4		Sinotrans	1,239,616	3,770,000	502,000
5		Expeditors	904,809	1,125,137	955,391
6		Nippon Express	2,208,398	703,061	752,942
7		CEVA Logistics	788,484	1,050,000	416,000
8		UPS Supply Chain Solutions	1,029,545	620,000	965,700
9		C.H. Robinson	1,619,248	1,000,000	210,000
10		Kerry Logistics	583,726	1,250,038	409,408

* Conversion rate as of the end of December 2019 (US$1=¥110.68)
Source: Armstrong & Associates, Inc. A&A's Top 25 Global Freight Forwarders List, 2019
Ranked by taking a broad perspective of total revenue, marine and air transportation

⇒

FY2020 5th place

Rank	Location of Headquarters	Provider	Gross Logistics Revenue (Millions of yen)*	Marine (TEU)	Air (Metric tons)
1		DHL Supply Chain & Global Forwarding	2,973,339	2,862,000	1,667,000
1		Kühne + Nagel	2,694,742	4,529,000	1,433,000
2		DB Schenker	2,169,525	2,052,000	1,094,000
2		DSV Panalpina	1,909,111	2,204,902	1,272,405
3		Sinotrans	1,272,183	3,750,000	532,300
4		Expeditors	1,057,122	1,012,600	926,730
5		Nippon Express	2,021,762	660,152	720,115
6		CEVA Logistics	773,300	1,081,000	363,000
7		C.H. Robinson	1,618,705	1,200,000	225,000
8		Kerry Logistics	717,602	1,019,924	493,903
8		UPS Supply Chain Solutions	1,154,516	620,000	988,880

* Based on the exchange rate as of December 2020 (US$1 = ¥104.50).
Source: Armstrong & Associates, Inc. A&A's Top 25 Global Freight Forwarders List 2020.
Rank reflects overall consideration of total revenues, ocean transportation, and air transportation

Our company was ranked 5th among forwarders in the world in 2020 according to Armstrong, moving moved up one rank from the previous year. We aim to make a leap ahead and become the No. 1 group in forwarder rankings through M&A aimed at air and ocean forwarding businesses. At the same time, in a world in which DX is quickly becoming a reality, the logistics industry is expected to shift from labor-intensive operations to machine-based operations. Therefore, in addition to conventional M&A targets, our future-oriented M&A strategy is beginning to incorporate targets in consideration of DX, including automation-focused materials handling manufacturers, sustainable energy companies, and other entities.
This concludes my presentation regarding initiatives to improve capital efficiency in light of ROE as the most important indicator. The current business environment has been challenging due to the outbreak of COVID-19 other factors. But we are determined to achieve our long-term vision of becoming a logistics company with a presence in the global market.