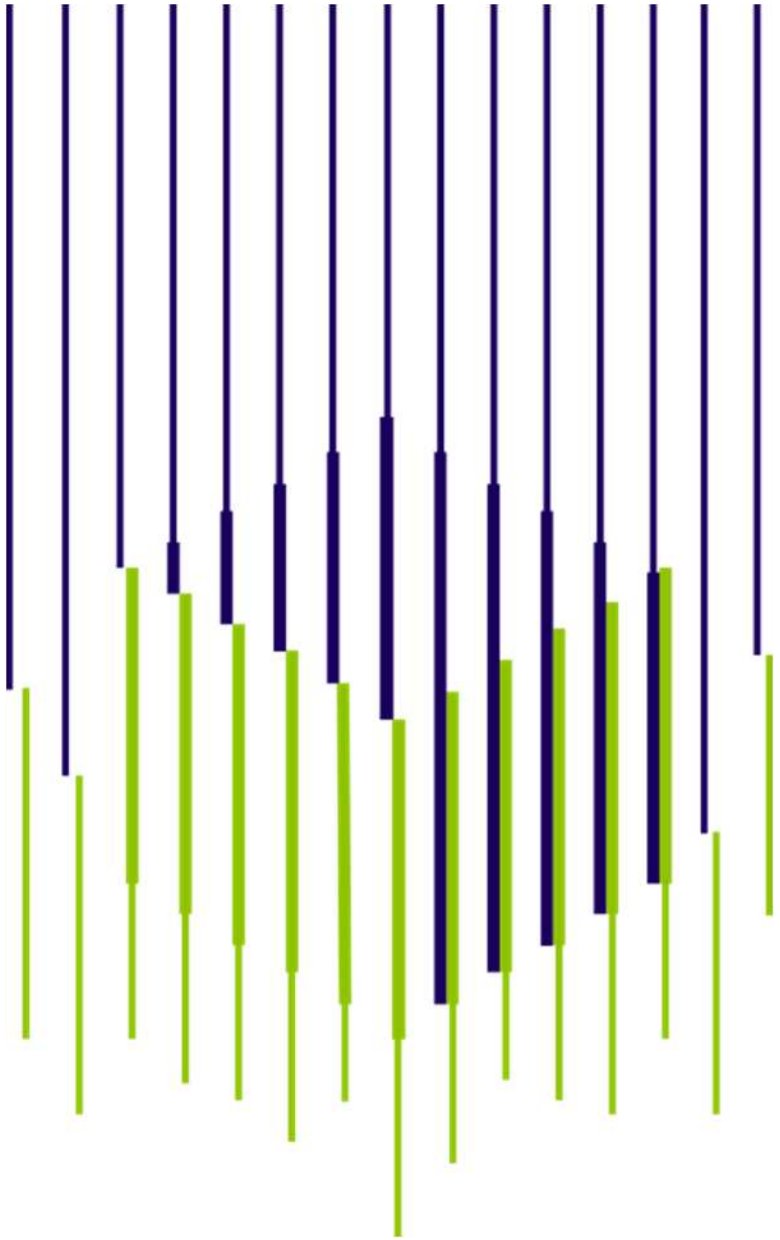
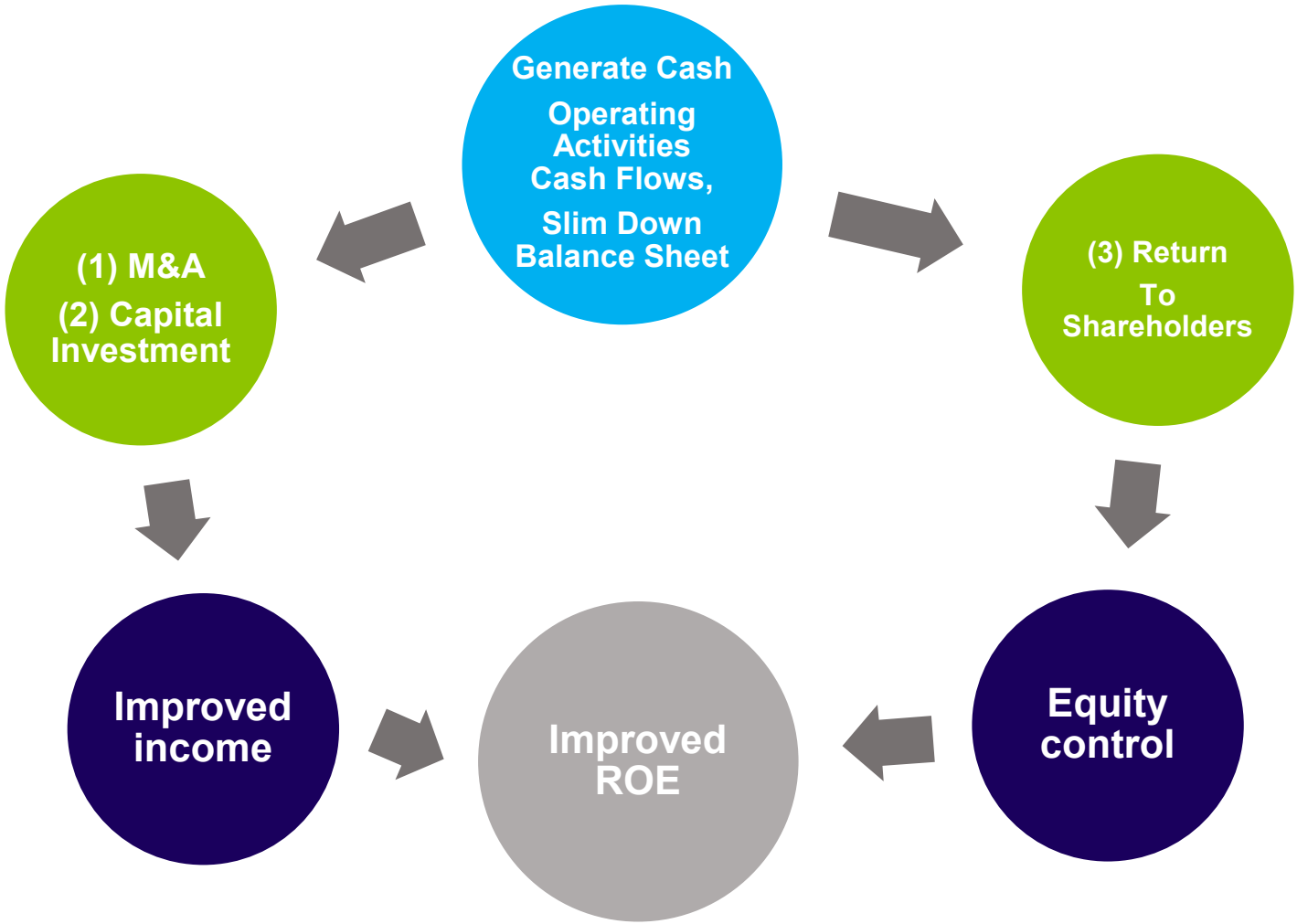


NIPPON EXPRESS
We Find the Way

IR Day 2022 Session 3
Initiatives to Improve Capital Efficiency

Director and Managing Executive Officer: Takashi Masuda
NIPPON EXPRESS HOLDINGS, INC.
September 15, 2022

Initiatives Toward Improved Capital Efficiency



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Generate Cash (Results)

(1) Slim Down Balance Sheet

· Sale of former headquarters building in Shiodome (sales price: ¥73.2 billion; gain on sale: ¥65.8 billion)
*Currently considering the sale of offices in the Kanto region

· Liquidation of Yokkaichi Logistics Center: ¥3.6 billion
*Currently considering the development of a base in Kyushu using a liquidization scheme

***Past transactions**

· Liquidization of the Mizonokuchi Distribution Center and pharmaceutical locations ¥50.0 billion
· Spinning off leasing business, Reduction in interest-bearing debt Approx. ¥140.0 billion

(2) Sale of Strategic Shareholdings

· FY2019 (Results)	¥ 1.0 billion
· FY2020 (Results)	¥11.6 billion
· FY2021 (Results)	¥ 6.9 billion
· FY2022 to FY2023 (plan)	¥10.0 billion

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Cash Generation Activities (Results)

(1) Capital Investments & M&A

· Capital investments FY2021 (results) ¥56.5 billion
FY2022 (plan) ¥64.0 billion

*Excluding leased assets
*FY2021 results are for the nine-month period (April-December) due to a change in the fiscal year end
*Looking forward, we will leverage generated capital for aggressive investments targeting growth, including M&A.

(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 (%)	Total return ratio (cumulative) (%)
FY2019 (results)	155	145	83.76	100	141.08	
FY2020 (results)	185	170	30.59	100	48.31	
FY2021 (results)	240	217	40.32	100	58.80	
FY2022 (forecast)	400	362	28.96	100	37.00	51.30

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Improve Business Indicators

(1) Slim Down Balance Sheet & Improve Business Indicators

- Slim down the balance sheet and improve business indicators by selling real estate and strategic shareholdings.

	Results	Results	Results	*1 Results	Forecast
Fiscal year	FY2018	FY2019	FY2020	FY2021	FY2022
Ratio of revenue to net profit	2.3%	0.8%	2.7%	2.8%	4.8%
Total asset turnover	140.0%	136.2%	132.0%	143.8%	157.2%
Financial leverage	284.6%	282.0%	280.7%	266.6%	244.8%
ROE	9.2%	3.2%	10.0%	10.9%	*2 18.5%

*1 FY2021 figures are pro forma figures for the period from January to December 2021
*2 ROE forecast is 12.1%, excluding the sale of the former Shiodome headquarters building in 2022

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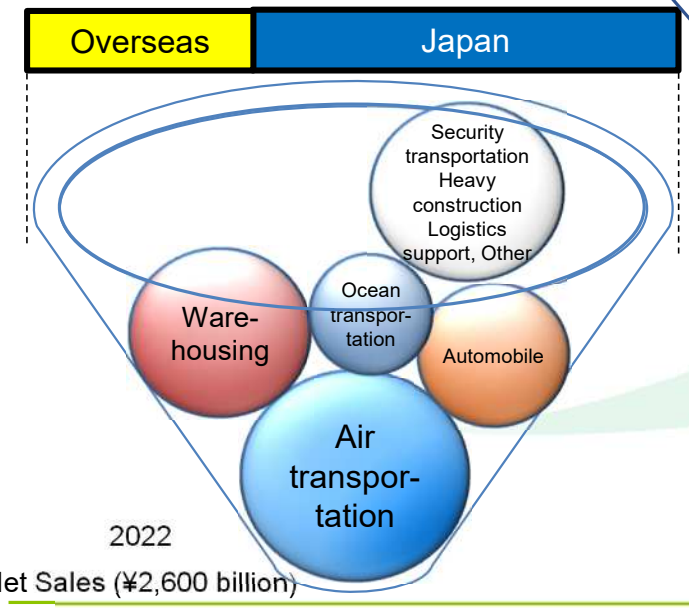
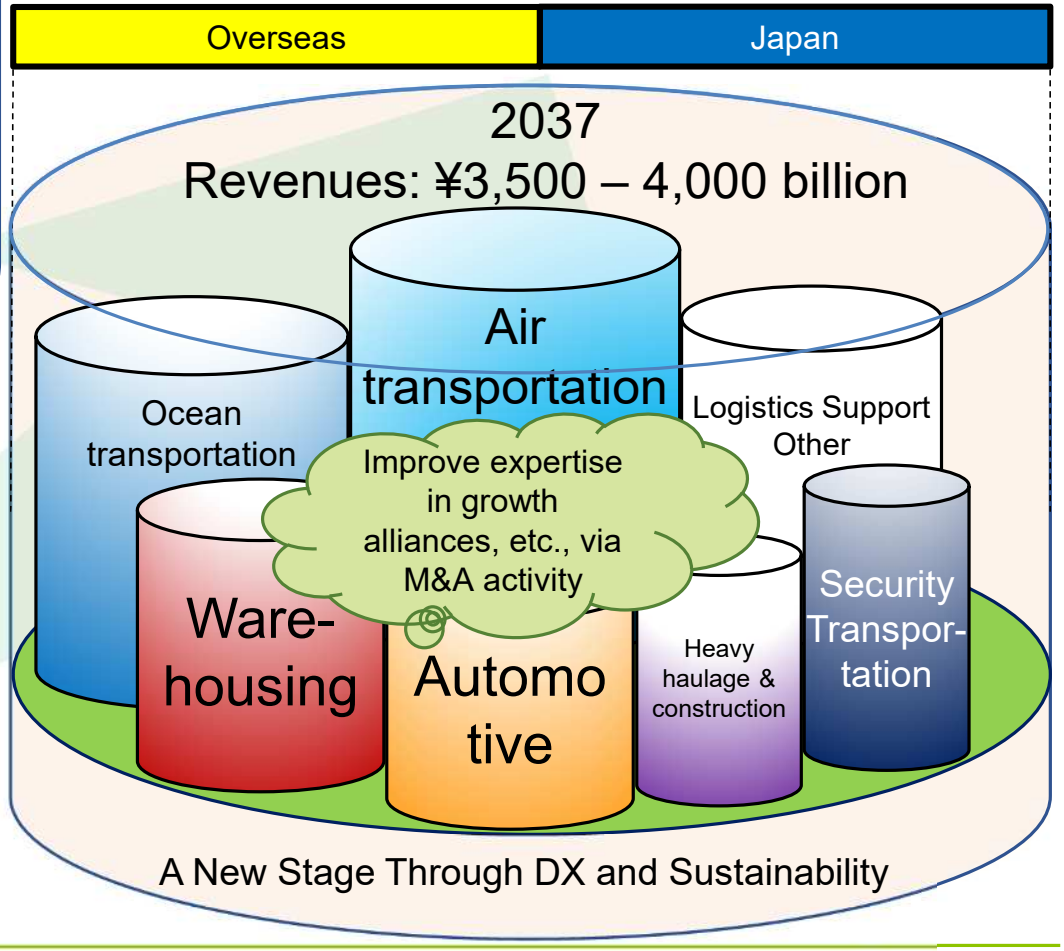
Optimize Business Portfolio & Vision for 2037

- Reorganize and integrate overlapping businesses and functions within the group
  - Reorganize logistics finance business (January 2023)
  - Reorganize real estate business and functions
  - Reorganize automotive maintenance, temporary staffing, etc.
- Enhancing Japanese Domestic Businesses
  - Spin-off of security and transportation business (January 2023)
  - Reform logistics, railway utilization, small-lot shipment, coastal shipping, and integrated business (alliances, carve-outs, etc.)
  - Liquidation of non-core and unprofitable businesses
- Pursue M&A
  - Focus on global forwarders in air and ocean cargo transportation



A logistics company with a strong presence in the global market



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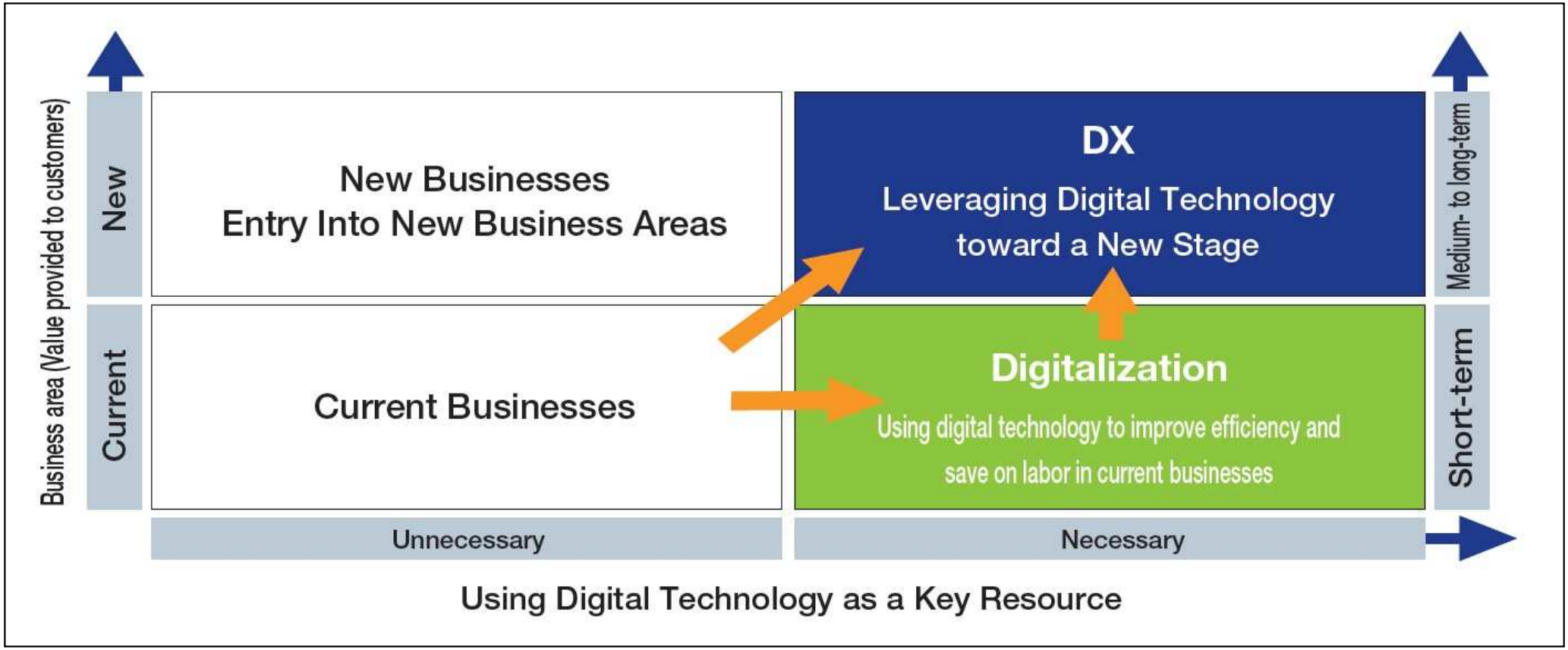
NIPPON EXPRESS We Find the Way

NX Group Ambidextrous DX Strategy



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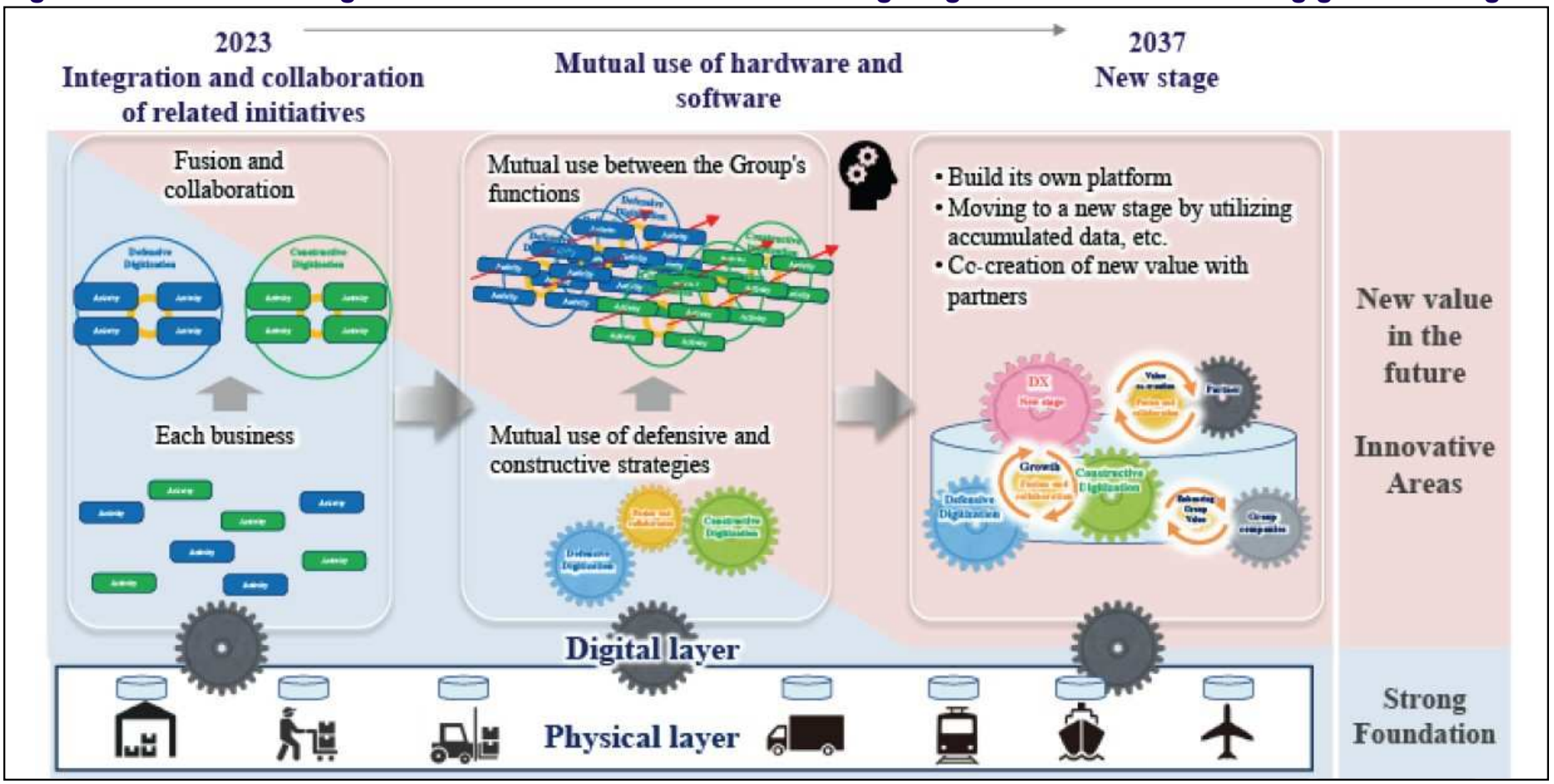
NX Group Direction for DX

The NX Group will leverage the knowledge and data obtained from physical assets and the solid physical layer (foundation) built on these assets that handles a wide variety and volume of cargo. In this way, we will engage in logistics-based DX through the accumulation of new value through digitalization and the turning gears of a digital layer.



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DX Strategy Activities and Outcomes

Activity

- Improve operational efficiency through the introduction and operation of robots
  - Target for business efficiency improvement through RPA by the end of FY2022: 1.5 million hours/year
  - Target for business efficiency improvement through OCR by the end of FY2022: 100,000 hours/year
  - Opened the NX-ALFA, a showroom-type advanced logistics facility utilizing AI and IoT technologies
  - Accelerated adoption of AMR, AGV and AGF at warehouses
- Initiatives for logistics-driven DX
  - Plans to build a data platform infrastructure
- Establishment of promotion systems
  - Established the DX Promotion Division
  - Started Group DX Promotion Council meetings (twice yearly) with major domestic operating companies
    Objective: To share goals, align our awareness, share information, and share issues in order to promote DX throughout our Group
- Human resources development
  - Started a project on DX human resource development with the Human Resource Strategy Department
  - Education on DX through e-learning for employees ⇒ Advance implementation planning for nine major domestic operating companies
  - RPA master training
  - Plan DX-related certifications and educational programs to increase human resources advancing DX
  - Across 34 branches nationwide, assigned 60 employees the responsibility for promoting operation advancement and efficiency
- Value co-creation initiatives
  - Operational partnership with NEC

Outcomes (corporate value/social value)

Corporate value

Financial

- Revenues and profit expansion
- Reduce invested capital

Non-financial

- Improve quality, productivity, and sustainability at each of our global locations through digitalization
- Accumulate data on a data platform that contributes to supply chains and logistics optimization
- Production of solutions to social issues through co-creation with customers and partners
- Improve customer loyalty

Social value

- Transportation efficiency and optimization for society as a whole

* KPI for progress of materiality is to be determined

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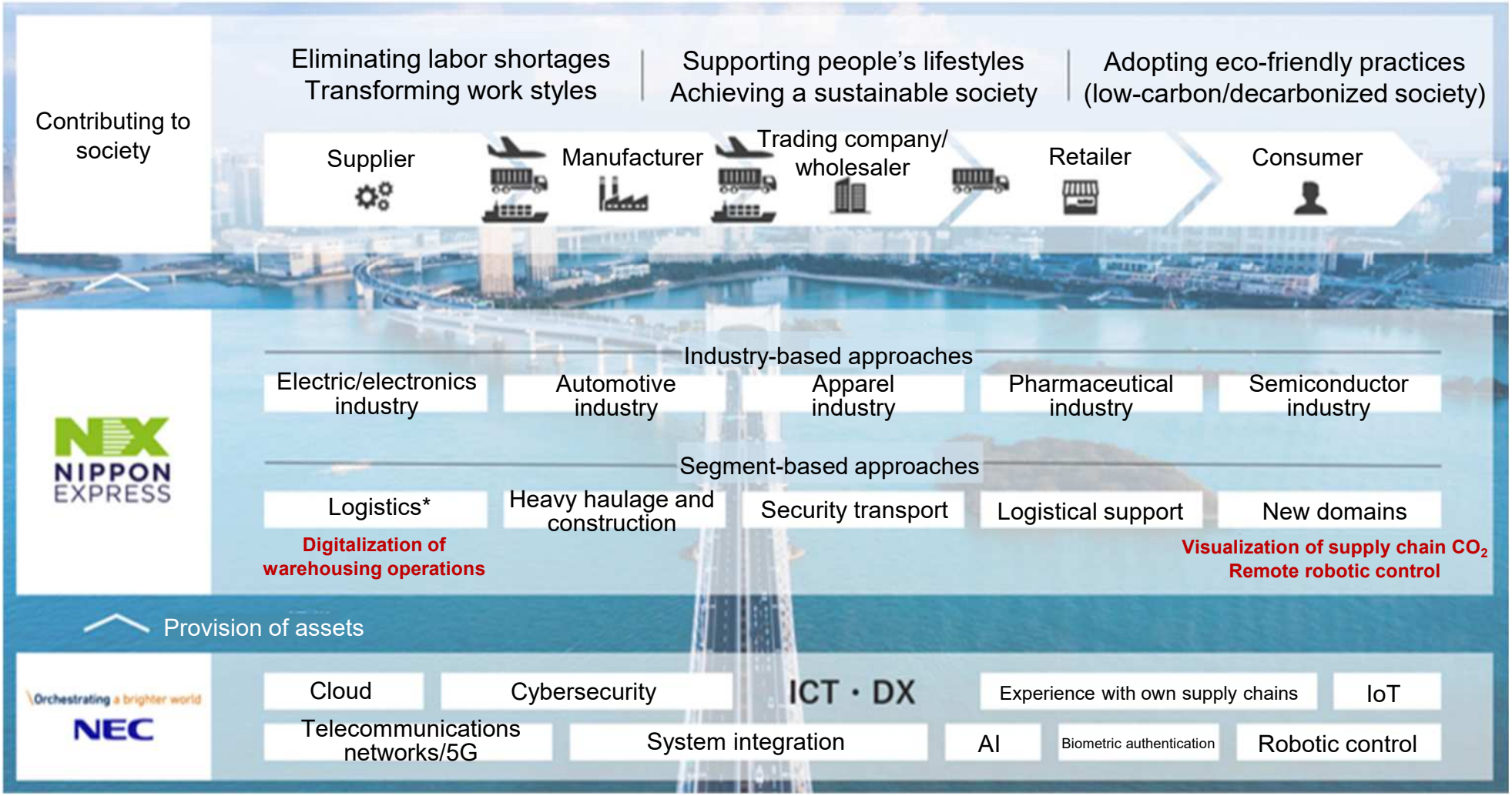
Overview of the NX Group x NEC Business Alliance



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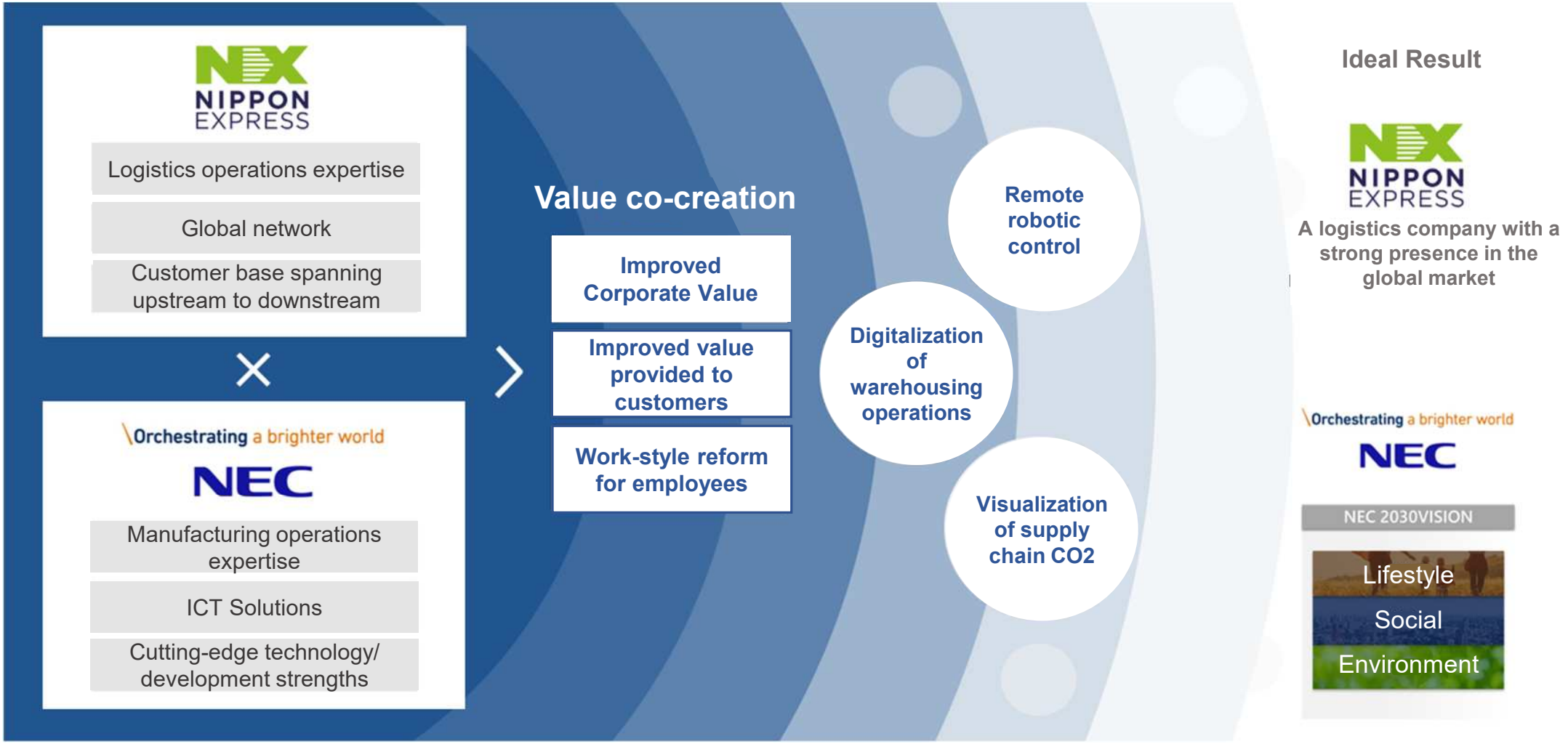
NX Group x NEC Value Co-Creation



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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

Eight companies

◎ **Investment**	**¥160.0 billion**		
	(Total in the first year of acquisition)	⇒	**(Total for FY2021)**
◎ **Revenues**	**¥155.7 billion**	⇒	**¥265.1 billion**
◎ **Operating income**	**¥5.2 billion (profit margin 3.4%)**	⇒	**¥16.0 billion (profit margin 6.0%)**

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

(3) 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 regions
- Develop an integration plan for future M&A, including PMI with respect to business management

(4) 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, Kerry acquisition of Topocean
- Port management companies: DP WORLD acquisition of Syncreon, Imperial
- Shipping companies: MAERSK, CEVA and other acquisitions to provide total logistics services

⇒Heightened acquisition costs, M&A focused 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

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

Global Forwarder Rankings Top 10

FY2020 5th

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

⇒

FY2021 7th

Rank	Location of Headquarters	Provider	Gross Logistics Revenue (Millions of yen)*	Marine (TEU)	Air (Metric tons)
1		Kühne + Nagel	4,656,348	4,613,000	2,220,000
2		DHL Supply Chain & Global Forwarding	4,299,352	3,142,000	2,096,000
3		DSV Panalpina	3,295,292	2,493,951	1,510,833
4		DB Schenker	3,152,424	2,003,000	1,438,000
5		Sinotrans	2,177,439	3,940,000	804,000
6		Expeditors	1,883,952	1,047,725	1,047,200
7		C.H. Robinson	2,549,031	1,500,000	300,000
7		CEVA Logistics	1,368,240	1,269,000	474,000
7		Nippon Express	2,122,140	747,624	971,763
8		Kerry Logistics	1,199,034	1,229,298	520,415
9		UPS Supply Chain Solutions	1,669,138	620,000	988,880

* Based on the exchange rate as of December 2021 (US$1 = ¥114.02).
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

- We recognize that the reason for the decline in ranking was the difference in scale in ocean freight forwarding, although MOL is increasing in volume
- We aim to close the gap by utilizing M&A and making a leap to the No.1 group in the ranking

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