



**IR day 2024 Session 2
Rebuild Businesses in Japan**

**NIPPON EXPRESS HOLDINGS, INC.
September 13, 2024**

NX Group Business Plan 2028

Important Strategies and Policies in Business Plan 2028

Basic Policies

- Enhance global competitive edge and achieve business growth with a group-wide optimization approach.
- Increase competitiveness and profitability, and enhance corporate value based on clear business portfolios and separation of roles.
- Implement sustainability management helping to resolve social issues and achieve a sustainable society, and reform the company group to one that is chosen by customers, society, shareholders, and employees.



1 September 13, 2024 IR day

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With regard to the rebuilding of businesses in Japan, one of the key issues in the NX Group Business Plan 2028, our goal is to improve the business profit ratio from 3.9% to 5.9%. As previously announced, we have revised downward the business profit of the Japan segment in our forecast for the fiscal year ending December 31, 2024. With domestic logistics remaining sluggish, we believe it is important to improve earnings in the forwarding business and work on rate revisions to ensure appropriate fee collection in order to secure short-term business performance. In addition to striving to secure short-term performance, we believe it is important to ensure that the measures in the business plan are implemented to improve the business profit ratio, as targeted. We plan to transform into a strong customer-oriented company by facing customer and social issues head-on and are committed to the three following reforms: (1) expansion of revenue and profit through this transformation, (2) continuation and deepening of the strengthening of businesses in Japan, and (3) reform and review of the business foundation. Today, I will explain the status of efforts to realize these three efforts in order to improve the profitability of logistics Japan.

Approaches to Improving Profitability

Establish an Account Management Structure

- **Establish a dedicated system for major customers**
 - Implemented at 44 companies, with establishment scheduled for 2025
- **Establish a system to manage customer profitability**

Strengthen Our Logistics Business

- **Strengthen competitiveness** (introduce automated equipment, provide on-site support, and develop human resources)
- **Implement initiatives to improve profitability by location**
 - Calculated ROIC for each warehouse location for large bases
Implement measures to improve profitability tailored to each location

Expand Handling in Priority Industries

- **Pharmaceuticals/ Medical Business**
- **Semiconductor Business**

Five-year profit improvement plan
(total +27.0 billion yen)
+24.0 billion yen (Nippon Express)
+3.0 billion yen (other Japan logistics)

Continue and Enhance Measures to Solidify the Base of Businesses in Japan

- **Rate revision**
- **Thoroughly improve efficiency, including through the use of IT tools and digital transformation**
- **Review low-profit operations**

Five-year profit improvement plan
+13.0 billion yen

Reform and Review Business Infrastructure

- **Reorganize special combined delivery services**
 - **Reorganized sub-agent operations**
 - **Reorganize Nippon Express**
 - Transform business structures in line with area characteristics
 - Implement the appropriate and efficient reallocation of management resources
- ☐ Introduce in-house company system (January 2025)

Improve capital efficiency, etc.

We would like to promote three major approaches to achieve an increase in business profit ratio to 5.9%. The first approach is to expand revenue and profit, and in Japan we will aim to expand end-to-end solution, with account management as the starting point.

With regard to account management, we have established a dedicated sales structure for the 175 client companies currently positioned as important across the Company, and are in the process of establishing a dedicated sales structure, with customer-specific account offices staffed with dedicated sales representatives. As the customer contact point, account offices are responsible for the sales-related operations of each account and for developing and promoting account plans. In addition, with regard to the maintenance and improvement of quality and safety, which are prerequisites for relationships with customers, account offices will promote quality uniformity and safety initiatives in cooperation with the divisions in charge and the on-site divisions.

Regarding the establishment of account offices, we have established new account offices for 18 clients under the jurisdiction of the sales strategy division as of July 1 of this year, and have already built a dedicated sales structure for 44 companies at present. We are also moving forward with plans to complete the establishment of a structure for other accounts by the end of the next fiscal year.

In addition, each account office is responsible for monitoring income and expenditures for each account. Income and expenditures by customer were previously tracked by store, but we are currently building a system to track and manage income and expenditures by customer based on a unified standard for the entire Company. We believe this will enable us to confirm the profitability of each account and determine sales strategies from the perspective of company-wide optimization.

Moreover, in order to expand end-to-end solution based on account management, we believe it is essential to strengthen our logistics businesses, and we have been working to develop logistics human resources since the previous business plan period. In the new business plan, we will continue to develop human resources, actively promote the introduction of automated equipment at work sites, and enhance on-site support functions for the launch of new logistics operations to strengthen our competitiveness.

In addition, we will continue to improve the profitability of the logistics businesses by calculating ROIC for each warehouse for large-scale locations, analyzing the results, and working on improvement activities to raise the profitability at each location to the necessary level.

When it comes to handling expansion in priority industries, for the healthcare and semiconductor businesses, we have been making upfront investments in warehouse facilities and human resources since the previous business plan period in response to structural changes, such as GDP legislation and the return of production plants to Japan due to economic security-related concerns. These industries are expected to be areas of future growth and will contribute to the expansion of our earnings.

In the healthcare business, it became necessary to revise the original plan due to the outbreak of infectious diseases and the time required for GDP, the standard for appropriate distribution of pharmaceutical products, to become law in Japan. However, the potential of the pharmaceutical business for the future remains high, and we intend to continue to focus on it as a priority industry.

We believe that the business projects of several global pharmaceutical manufacturers will become operational and will be profitable from 2025 onward. In the semiconductor business, the Kumamoto Logistics Center began operations in April of this year, the NX Tosu Logistics Center in August, and NX-TECT Hokkaido in Eniwa, Hokkaido. We plan to continue to expand our locations to accommodate semiconductor clusters, and we are working on sales to semiconductor manufacturers, manufacturing equipment manufacturers, and suppliers to make these locations profitable.

Under the "revenue and profit growth" approach above, we target an increase in profits of approximately JPY27 billion over the five-year period.

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The second approach is to continue and deepen the strengthening of businesses in Japan. We will continue and upgrade the initiatives taken under the previous business plan. In this context, we plan a profit effect of JPY11 billion over the five-year period with respect to rate revisions.

With outsourcing costs expected to rise due to the "2024 problem," we will continue to work on rate revisions as one of the most important issues from the perspective of business continuity.

In addition, we will utilize IT tools and DX to improve work efficiency and office productivity. With regard to these efforts, the centralization of corporate operations is expected to have a concrete effect, and we anticipate that implementation will be completed around the middle year of the plan. We believe that productivity improvement through the use of such advanced technology needs to be considered on an ongoing basis.

Through the above approach to continue and deepen the strengthening of businesses in Japan, we target an increase in profits of JPY13 billion over the five-year period. In addition, while efforts to review low-profit operations have been underway during the previous business plan period, this fiscal year we will examine section offices with operating profit margins inferior to the 4% of NIPPON EXPRESS and proceed with the integration of the branch offices.

The third approach is to reform and review the business foundation, shifting the focus from traditional cost reduction efforts to capital efficiency improvements.

One of these efforts is the business integration with Nagoya Railroad in the special cargo business, with the transfer of shares of NX Transport scheduled to take place in April of this year, and the absorption-type split of NIPPON EXPRESS's target businesses in January of next year.

With respect to the reorganization of branch operating companies, we will liquidate the companies with low profitability and will also seek to increase the workforce. Amid labor shortages, including the "2024 problem," we are building a system to secure a workforce, maintain quality, and centralize our forces to improve the efficiency of administrative work.

Of these branch-operating companies, 70 are targeted for liquidation. 41 have been restructured so far, and all 70 restructurings are scheduled to be completed by 2025.

Along with the implementation of the various initiatives described so far, we are considering the introduction of an internal company system as part of NIPPON EXPRESS's reorganization to tailor our management resources to the characteristics of the market.

Nippon Express Reorganization

Objectives Differentiate organizational roles by areas with different market characteristics and establish structures to achieve each management goal

- Implement the appropriate and efficient reallocation of management resources

Kanto Koshinetsu, Chubu, Kansai

➔ **Business Focus and Customer Focus Unit Structure**

- **Maximize profits as sales increase**
 - Expand business transactions through stronger account management
 - Grow forwarding and other global businesses
- **Improve profit margins through higher productivity**
 - Separate sales, operations, and back-office operation functions
 - Improve productivity through the centralized management of our workforce

Hokkaido, Tohoku, Chugoku, Shikoku, Kyushu

➔ **Introduce an in-house company system**

- **Improve profitability and capital efficiency through more efficient management**
 - Increase managerial flexibility through the delegation of authority
 - Enhance management efficiency by reorganizing, investing, and hiring and assigning employees based on area characteristics

I will now provide more details. Please look at page three. First, let me explain the goal of the restructuring. Currently, NIPPON EXPRESS divides its operations and management within Japan into six regional blocks, but we will reform the uniform business structure in Japan toward a new structure by area with different market characteristics. The three units will be the Tokyo, Nagoya, and Osaka business and customer unit, the East company, and the West company. The purpose of this restructuring is to improve profitability and capital efficiency.

Next, I will explain the restructuring and its aims in each area. First, in the Tokyo, Nagoya, and Osaka areas, the current regional block system of Kanto Koshinetsu, Chubu, and Kansai will be abolished and reorganized into a unit system based on business and customer centers.

One of our aims in this area is to maximize profits with revenue expansion. In this area, where the market size is large and the headquarters organizations of global companies are concentrated, we aim to expand the business areas with customers by strengthening account management centered on a dedicated customer-oriented sales structure.

In addition, the area has international transportation gateways such as airports and ports, and we intend to further grow our Japan-originated global business by placing a business-centered organization to oversee our Japan-originated forwarding business in this area.

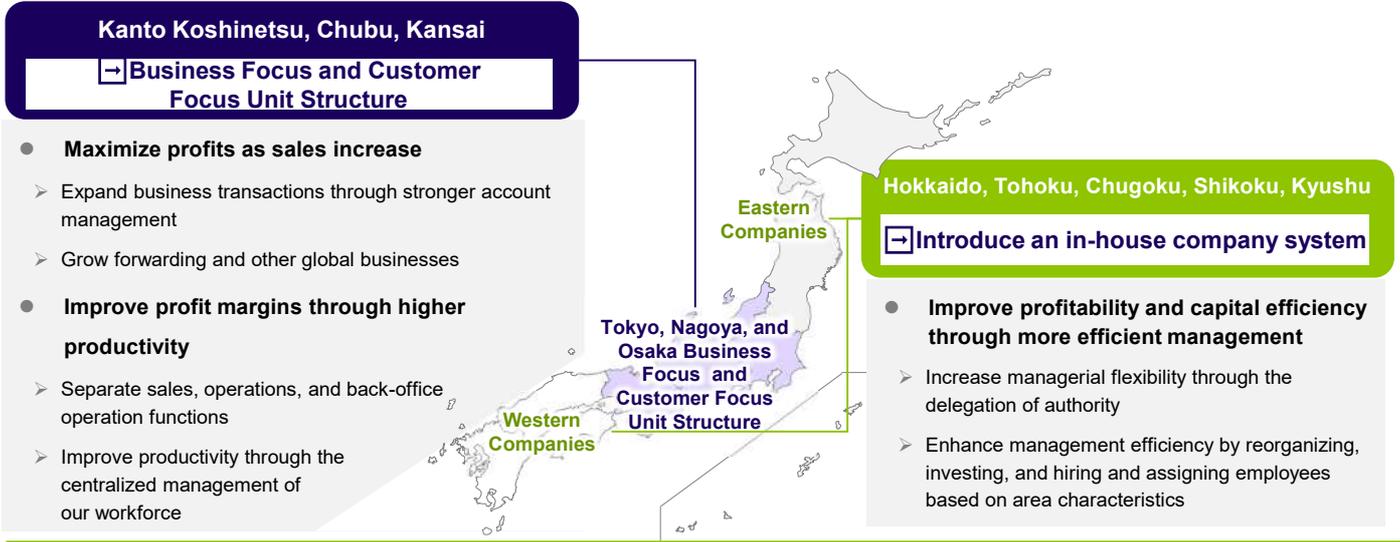
We are also currently reorganizing our structure based on the functions of sales, operations, and back-office operations, rather than a structure based on areas and bases, as we have been doing in the Kanto Koshinetsu area.

For example, the allocation of vehicles, which used to be optimized for branch offices, will be improved by pursuing area optimization, thereby improving the utilization ratio and profitability.

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Next, an internal company system will be introduced in the Hokkaido/Tohoku area and the Chugoku/Shikoku/Kyushu area, with the Hokkaido/Tohoku area as the East company and the Chugoku/Shikoku/Kyushu area as the West company. The goal in these areas is to improve profitability and capital efficiency through more efficient management. Although the market size, industrial characteristics, and labor market conditions are different from those in Tokyo, Nagoya, and Osaka, we anticipate a different transportation demand than in the past, as semiconductor-related companies are expected to move into the area. In this area, by increasing management flexibility through delegation of authority, we will improve management efficiency through organizational revisions, investments, or hiring and staffing in accordance with the characteristics of the area. We will continue to optimize the allocation of management resources by promptly withdrawing from or downsizing low-profit locations, and we will pursue the same approach in Tokyo, Nagoya, and Osaka, where a unit-based system is in place. In addition, the management targets to be set for the Tokyo, Nagoya, and Osaka units as well as the East and West companies in the future will be tailored to their goals. In the Tokyo, Nagoya, and Osaka areas, the goal is to increase profit amount with revenue expansion, while the East and West companies will focus on improving profitability and capital efficiency rather than sales expansion. By working toward the target figures linked to the roles of each organization, we will downsize or withdraw from low-profit businesses, while investing in areas where future growth is expected, such as semiconductor-related areas, to optimize the allocation of management resources. The above was an explanation of our efforts to rebuild our businesses in Japan. We intend to achieve a business profit ratio of 5.9% by promoting a three-pronged approach to improving profitability.



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