

September 9, 2021  
Nippon Express Co., Ltd.

Questions and Answers (Summary)

IR Day Session 1 (Growth Strategy for Core Businesses)

Speakers : Takaaki Ishii , Executive Vice President, COO, and Representative Director

Q1. Describe the differences in profitability between your Japanese and overseas businesses.

A1. In general, profitability is higher overseas. Last year, due to the spread of COVID-19, we analyzed the impact of the pandemic on each of our four overseas blocks and implemented countermeasures to solidify our base for operations.

Currently, the volume of air and ocean freight forwarding is increasing, and the increase in unit prices is also having a positive effect. We are investing aggressively in clusters in the automotive and semiconductor industries. We believe that the fruits of these investments will emerge in the future.

The operating profit margin target in our medium-term business plan is 5%. But we believe the overseas segment is currently capable of achieving an operating profit margin of 6% to 7%. That the forwarding business is relatively highly profitable is common to both Japan and overseas.

Q2. On page 11 of your presentation materials, you stated that you expect to achieve targets for GAM and GTA. Can you provide more about the background of the growth in volume, as well as specific examples of initiatives and your assessment?

A2. In the past, we focused on Japanese global customers. But over the past 10 years, we have been aiming to expand our business to non-Japanese customers. We have been making proposals to non-Japanese customers to see if our Japanese-style high quality services will be effective in the global market. In other words, we have been discussing how we can help our non-Japanese clients in the areas where they are expanding globally, as well as what kind of investments we can make for the benefit of their business plans.

To give you an example of a German customer, this particular customer began a project after winning a bid. But they needed to cover operations spanning over 200 suppliers. We responded with speed, offering performance that satisfied this customer.

In terms of building relationships with non-Japanese customers, we believe it is important to build equal partnerships with them. Our analysis shows that our efforts to date have led to the strengthening of these relationships, which in turn has led to the growth of our business. We believe we have made significant progress in our efforts for non-Japanese customers.

Q3. What is the background behind the expansion of Japanese global customers mentioned on page 13 of your presentation materials? Also, what are your thoughts on future strategies?

A3. To date, the gap between the overseas expansion of Japanese global customers, the revenue composition ratio by region of our Japanese global customers, and our own revenue composition ratio has been a blind spot. We have not made much effort to address it. Customers are changing their view of the Japanese market as they expand globally. On the other hand, our strategic functions are located in Japan, and our efforts in the area of multinational transportation, particularly modes that do not involve Japan, have been weak and inadequate. The global revenue ratio of our Japanese global customers in Japan is about 25-30%. We need to think about how our four overseas blocks can develop their infrastructure, and we need to change our mindset that Japan is not the center of our business. The volume of cargo operated by Japanese global customers is large overseas, and we see this as an important market that we are working to address.

Q4. Describe the impact of the semiconductor shortage and your future outlook.

A4. The shortage of semiconductors has not had a significant impact on our overall business at this time. In the air export freight forwarding business from Japan, volume has increased by 70% to 80% compared to last year, and cargo movement has been firm. Similarly, our ocean export freight business has seen an increase in volume, not affected by production adjustments due to the semiconductor shortage. The automotive industry will adjust its production toward the end of the year. But we do not expect this adjustment to have a significant impact on the volume handled by our forwarding business. We expect our forwarding business to remain steady through the end of the calendar year or the Chinese New Year, with no major changes in the situation.

Q5. What do you think are the reasons for lower profit margins compared to the main overseas players? What are your thoughts on how to improve profit margin?

A5. There is a difference in portfolios between European and American forwarders and our company. In our business, the profit margin of the forwarding business is high, while profits in the logistics business tends to be low. However, in terms of our global strategy, we believe we cannot meet the demands of our customers without providing a logistics function. And we are strengthening our logistics business. By increasing the profitability of our logistics business through investment at the global level, while expanding our forwarding business at the same time, we believe we will change our business portfolio and improve profit margin.

Q6. You have increased your share of the air forwarding market by increasing the number of space charters. What will be your approach to maintaining this share in the post-COVID-19 era?

A6. To maintain and expand cargo volume in our air export freight forwarding business, it will be

important not only to have space supply capacity, but also, and more importantly, it will be important to suggest services to customers in support of their supply chains.

Personally, I believe the air export freight forwarding market will not return to business as usual. Simply securing space, such as block space or chartered transportation, will not be enough. I also do not believe that monopolizing and allocating space is a good way to do business. We believe it is important to share information about space capacity in advance with customers and suppliers on an industry-by-industry basis.

The mindset of our customers has changed from the traditional focus on cost reduction to a different stage. So, we have created stronger channels to discuss their production and business plans. As a result, we believe we will be able to secure market share.

Q7. Describe profitability management in the air export freight forwarding business.

A7. In May, the air forwarding market was disrupted by a decline in automobile production activities stemming from the shortage of semiconductors. We were also impacted negatively. At that time, I gave direct instructions regarding profit management, and we improved the situation by pursuing profit management. We have been managing dates and times and monitoring loading rates. We are nearly at full capacity currently, so our air export freight forwarding business is making a significant contribution to earnings.

Q8. Is there any setback in the competitive environment due to the tightening of ocean cargo transportation space? Also, tell us about the status ocean cargo transportation, including changes in the power dynamic with shipping companies.

A8. We have been working for more than three years to understand and build a framework for ocean cargo transportation. We believe the COVID-19 pandemic has opened up opportunities. In the past, ocean cargo transportation was conducted under a contract between shipping companies and customers. NVOCC operators were responsible for arrangements involving less-than-optimal cargo consolidation, but the situation has changed drastically. Specifically, the contracts between the customer and the shipping companies are no longer functioning properly, and NVOCC companies are receiving inquiries. With the establishment of the Global NVOCC Center (GNC) last year, we have been able to respond to inquiries as quickly as possible, and we are beginning to see results. Cargo volume has increased significantly, and we believe that the measures we have taken so far have been a good match. To enhance customer convenience further, we plan to expand the functions of GNC globally.

Q9. What is your approach to account management for Japanese global customers and what are your thoughts?

A9. We are engaging in account management at present, but we are not looking at each customer

singularly. We are looking as the group that serves as the customer's logistics. In the past, we focused on Japan, so the scope of our visibility was limited. The key is how to respond to the areas that were not visible to us.

We are looking at the positioning of our customers and the competitive and collaborative relationships between our customers and other companies from an industry perspective. Therefore, we will be able to expand our targets and increase our business further.

Q10. Tell us about the areas you are going to strengthen to expand sales in the future.

A10. Currently, the forwarding business offers relatively high profitability, while the logistics business, though large in revenue scale, offers lower profitability compared to the forwarding business. Given these circumstances, we are considering the best mix for the composition of our business portfolio. Rather than focusing on a single business, we believe the key is to allocate management resources with an eye to what areas and what kind of bases we must build, all while balancing scale and profitability.

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