

IR Presentation, Session 3
Reinforcing Group Management
Questions and Answers (Summary)

August 26, 2020
Nippon Express Co., Ltd.

M&A Results and Future Policies

Q1. Can you tell us more about the ROIC results for past M&A?

A1. ROIC for fiscal 2019 declined compared with fiscal 2018 to just under 7%. Operating income margin was slightly under 5%. On an overall average, we did not reach the ROIC we expected. However, these figures are only related to profit recorded for the companies in question. Of course we will be improving profit in ways other than these companies. For instance, the two companies we acquired in Italy have quite a few luxury apparel brand customers in Italy, France, and Spain. We are using these customer lists to do luxury apparel work at our local entities in the U.S. While this has yet to bear fruit in Asia, we plan to capture jobs for luxury apparel customers in Japan and Asia. Including what I have just mentioned, I believe we will reach the 9% level soon.

Q2. Your analysis of companies acquired in the past shows strong performance for companies overseas. However, profitability seems to be weak for Nittsu NEC Logistics and Nittsu NP Logistics. Is this a correct understanding? What measures do you plan to take to improve the situation?

A2. The profitability of the three domestic companies is higher than that of Nippon Express. In particular, operating income margins are very high, and ROIC is high, as well. In terms of group ROIC, these three companies have been a performance driver.

Q3. Why are the three domestic companies so high in profitability?

A3. The companies have leveraged the strengths of Panasonic and NEC, respectively. Wanbishi Archives was a subsidiary of Toyota Industries Corporation. Each of these companies have been the subject of strict management within their respective groups. The high degree of expertise and strict management to date have been assets.

Q4. You plan to continue to grow through M&A. I also heard in the past that Nippon Express wanted to strengthen operations in Asia, mainly through ocean forwarding. Have there been any changes in the types or areas of business you are mainly targeting?

A4. As you can see from the ranking of forwarders, air volume has remained at a decent level; however, ocean transportation volume has been weak. We remain determined to strengthen this area. I understand that cargo from Asia represents 60% to 70% of the world total. Asia is our foundation of operations and I believe a strength of Nippon Express, so acquiring a company with strengths in Asian ocean transportation NVO is a direction to which we remain committed.

Governance Structure Revisions

Q5. You have mentioned considerations of transitioning to a pure holding company structure. Can you talk more about the positive impact, for example, on the income statement by removing barriers between land, sea, and air.

A5. Our current governance structure review includes a review of our businesses. Historically, we have been a company managed along lines of area and company, rather than in business lines. We want to consider the structure when we look at business lines from a zero basis, including what organization we should adopt for certain businesses and what businesses are redundant and should be reorganized. Our objective is to raise our level of expertise. To compete with companies that specialize in different areas, we must foster specialists, rather than generalists. Further, we must foster specialists that other companies do not have. At present, we are discussing the best organization to foster and manage employees, including outside specialists. Beyond the aspects of management with respect to governance, the question of how to generate horizontal operational efficiencies and how to create efficiencies across businesses within the matrix of vertical business lines and horizontal area lines becomes extremely important. We can create an extremely strong corporate constitution if we can run successful area operations in addition to strategies by business line.

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