(Summary) Session 3

Takashi Masuda, Director and Executive Officer

Corporate Strategy-Finance, M&A, and Governance

- Our current business plan describes our growth strategy for core business and strategy to enhance domestic businesses in Japan as our main business growth strategies aiming to strengthen the expansion of our earnings base.
- As efforts to implement our long-term vision, the plan includes inorganic growth strategy and reinforcing functions to support challenges, as well as ESG-oriented business management to realize sustainable development and improve corporate value. These business growth strategies and the initiatives to reach our long-term vision form a two-tiered structure to achieve our long-term vision.

Initiatives Toward Improved Capital Efficiency P.1

- To improve capital efficiency, we are moving forward with measures to raise profitability and secure a sound financial position, while generate cash at the same time.
- We are committed to management under ROIC, using capital efficiency as a KPI. It is important that we communicate these measures not only at the management level, but also at the affiliate company and branch level if we are to establish support for ROIC management throughout the group. One specific initiative is adopting ROIC as the main standard for allocating budgets to branches of the parent company and our affiliates. Each quarter, the Board of Officers and major affiliate committees report on performance. In addition, we are monitoring the progress and stepping up efforts in management efficiency.
- To educate our employees, we conduct information meetings within each block and lectures by employee rank. We are also raising awareness of ROIC on-site by making ROIC data search available to every employee through our monthly performance management system.
- The parent company uses ROIC as the main standard in assessing employee performance at the management level and above, ensuring ROIC becomes a familiar and accepted KPI.
- We are slimming down our balance sheet to raise capital efficiency. This includes reorganizing physical locations, such as the mechanism to introduce liquidity in Nippon Express-owned distribution centers.
- We secured liquidity from the Mizonokuchi Distribution Center during the first quarter. During the rest of the fiscal year, we plan to secure liquidity for three more pharmaceutical distribution centers currently under construction. We expect the combined total transfer price for the four centers to exceed ¥50 billion, and we will continue to consider this type of liquidity arrangement in the future.
- We are considering specific measures in addition to the liquidity scheme for our centers to slim down our balance sheet, and we will provide more information at an appropriate time.
- We are restructuring our business portfolio, pursuing selection and focus in our core businesses. While we have not completed many specific projects as yet, we transferred the stock of Kita-Nihon Kaiun Co., Ltd. (Seikan Ferry operator) to Kuribayashi Steamship Co., Ltd. for ¥2 billion in July of this year. The decision moved the Nippon Express Group out of the ferry business, which we had conducted

since 1962. We are looking into several other deals and specific negotiations are underway. We will report more information after finalizing details with the other parties.

- The Corporate Governance Code includes a strong policy for the reduction of cross-shareholdings. We have been approaching our cross-shareholding partners respectfully regarding the sale of cross-held shares. In fiscal 2019, we sold off stocks of 60 companies, including listed companies. We will continue discussing the sale of cross-held stock, planning to sell between ¥20 billion and ¥30 billion over five years, depending on market conditions. This sell-off will generate cash and improve our capital efficiency.

Initiatives Toward Improved Capital Efficiency P.2

- We plan to generate cash of about ¥300 billion through initiatives to improve capital efficiency.
- The cash generated will be allocated to M&A, which is the most important factor in achieving dynamic growth.
- We plan to make ¥450 billion in capital investments over the five years covered by our current business plan. In FY2019, the first year of the plan, we made ¥102.9 billion in capital investments. In fiscal 2020, we plan to make ¥125.0 billion in capital investments. The details are progressing essentially in line with plan. If we engage in more liquidity arrangements, cash outflow will decrease accordingly.
- Our capital policy under our current business plan calls for a payout ratio of over 30% and a total return ratio of over 50% (cumulatively between FY2019 and FY2023). Considering the stability of our financial foundation, we are mindful of maintaining an equity ratio of approximately 35%. In FY2019, the first year of the plan, we provided ¥155 per share in dividends and performed share buybacks in the amount of ¥10 billion. Despite an uncertain outlook due to the COVID-19 pandemic, we plan to pay dividends of ¥155 per share in FY2020. We will continue to consider share buybacks in consideration of continuity.
- Through these initiatives, we will first reduce our asset base and streamline our balance sheet to generate cash. We will use this cash to engage in M&A, expand our business, and improve profitability. At the same time, we aim to create a positive cycle by increasing shareholder returns and improve ROE by maintaining an appropriate level of equity.

M&A Strategy (Toward Achieving Our Long-Term Vision) P.3

- We believe M&A is a necessary means for us to become a global mega forwarder. We will leverage M&A to not only create a global network, but also secure a global business basis, a customer base of non-Japanese global accounts, and forwarding business infrastructure.
- We have been expanding our business through M&A since 2011. By 2019, we had acquired seven companies in Japan and overseas, converting these companies into subsidiaries. We invested a total of ¥153.2 billion in these seven companies. For FY2019, the non-adjusted total for these companies resulted in revenues of ¥218.3 billion, operating income of ¥10.4 billion, and operating income margin of 4.8%. Due to the impact of COVID-19, performance in FY2018 was better than FY2019.

- These figures account for approximately 10% of total revenue and 18% of operating income, showing a significant contribution to group earnings (figures to not reflect amortization of goodwill, etc.). Of the seven companies, we have recorded an impairment of goodwill for six. However, most of the companies are recording revenue and income growth toward a strong management foundation and company value, making solid contributions to the Nippon Express business.

M&A Strategy (Toward Achieving Our Long-Term Vision) P.4

- Currently, we are working to create and maximize further synergies with each company.
- In January of this year, we merged Italian acquisitions Franco Vago and Traconf with Nippon Express Italia. The merger integrated Franco Vago, an Italian luxury apparel and fashion forwarding company, Traconf, which specializes in luxury apparel and fashion storage and delivery, and Nippon Express Italia, which has more than 30 years of experience in Italy. Not only can the newly integrated firm reduce costs through joint purchasing, the company has an opportunity to build a system beyond luxury apparel and fashion, expanding laterally and growing sales as a lifestyle business model originating in Italy.
- We acquired a pharmaceutical storage and delivery company in the U.S., and plan to make it a subsidiary in September. In addition to entering the storage and delivery business for the world's largest pharmaceutical market, the company aims to build a global network in the pharmaceuticals/medical business, one of our main target industries.
- In our more recent M&A projects, we have continued to strive for better post-merger integration (PMI)to create and maximize synergies with our company as quickly as possible. PMI Committees have been established in five regions, including Japan. These committees hold meetings remotely and share the names of personnel in charge. In the past, we mainly addressed PMI with the company acquired in that local region and the local Nippon Express entity. Today, we expand PMI activities, sharing the strengths of the acquired company throughout our global organization to sell products and services worldwide.
- By centralizing information and clearly identifying the personnel involved, we have established a network driven by our sales section. This allows us to consistently connect related sales projects with the acquired company on a timely basis.
- We are also implementing other initiatives to achieve synergies as early as possible. In the past, we establish PMI committees prior to the acquisition, engaging in a rather closed environment related to the project in question. Now, we include related sales staff from the beginning as we engage in pre-acquisition PMI.

M&A Strategy (Toward Achieving Our Long-Term Vision) P.5

- As we pursue more refinement and efficiency through PMI in our M&A process, we aim to raise our ranking among air and ocean forwarders, increasing our presence as a global forwarder.
- Armstrong & Associates publishes a ranking of forwarders every year. This ranking lists companies from a comprehensive evaluation of revenues, ocean transportation, and air export freight forwarding

volume. We ranked No.7 and No.6 for 2018 and 2019, respectively. There is still quite a gap between our position and the top three companies. We intend to strengthen our M&A structure, aiming to secure our place in the primary group at No.4 or No.5 in the future.

Evolution in Global Governance P.6

・To become a logistics company with a strong presence in the global market as stated in our long-term vision, we believe we must strengthen group management and improve our global governance structure to expand our overseas business further. Our long-term vision includes an aspirational goal for revenues of ¥3 trillion in 2028 and ¥4 trillion in 2037. It will be challenging to maintain and strengthen corporate group governance at this scale under our current structure.

・Therefore, for the purpose of strengthening group management to realize maximum value as a corporate group, to realize consistent group management and optimal company-wide business, and to strengthen our global governance structure to realize the further expansion of our overseas business, we aim to realize further investment in overseas businesses, which are a growth area, and structure/strengthen control functions to support overseas growth, promoting a group management system and restructuring group head office, including the option of transitioning to a pure holding company structure.

・Our current management plan includes a two-tiered structure consisting of business growth strategies and initiatives to reach our long-term vision. We believe that each of these strategies are related organically and form a strategic scenario under which we can achieve our long-term vision. While the current business environment is certainly challenging, we intend to implement each of these strategies steadily as we aim to become a logistics company with a strong presence in the global market, as stated in our long-term vision.

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