

September 9, 2021
Nippon Express Co., Ltd.

Questions and Answers (Summary)

IR Day Session 3 (Initiatives to Improve Capital Efficiency)

Takashi Masuda, Director and Managing Executive Officer

Q1. How do you view the cost of capital and what indicators do you use to make decisions on investment projects (including M&A)?

A1. In preparing the current business plan, we set the cost of capital (WACC) at 4.3% and the hurdle rate for investment at 5%. We assume that our investment decisions will exceed these figures. We use the same criteria when examining M&A projects, but we assume that the company we acquire (logistics company) has a certain degree of corporate history and a management base (stable income and expenditure). In cases where this assumption is different (start-ups, M&A deals in industries other than logistics companies, etc.), we consider it necessary to consider the risk characteristics. While we view the return of investment and income plan as the sole responsibility of the acquired company, our forwarding business encompasses a global network. Therefore, we view M&A with forwarding companies as producing significant synergies since we are strengthening this network.

Q2. What do you think about your M&A activities to date? Have you been able to build a team that can function well in the M&A process?

A2. Our M&A track record to date has been about 11 times EBITDA. Amid the COVID-19 pandemic, M&A in the forwarding industry has been expensive with the market price at about 16 times EBITDA.

We have not reached the original business profit plans for the M&A projects we have completed to date, and we have recorded several impairment losses. However, we still believe that the value of the acquired companies has not eroded. On the other hand, we believe there were some shortcomings in PMI, etc., and we are working to strengthen these shortcomings.

Through the acquisitions of high fashion logistics companies in Italy and pharmaceutical logistics companies in the U.S., we expect growth in these fields in the future. We are making progress in dealing with business areas were previously unattainable by Nippon Express Italia and Nippon Express USA, and we expect to expand further globally.

In addition, we plan to hire experienced professionals who have learned at investment banks and other institutions to form M&A teams, continuing to strengthen our structure in this area as needed.

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