

September 9, 2021
Nippon Express Co., Ltd.

Questions and Answers (Summary)

IR Day Session 2 (Strategy to Enhance Domestic Businesses in Japan)

Susumu Akita, Executive Vice President, COO and Representative Director

Q1. How long will it take to see the effects of increased efficiency in warehouse operations, and what are your plans for automated warehouses?

A1. Our efforts toward warehouse operational efficiencies revolve around improving traditional operations through the latest in materials handling functions and systems that have yet to be implemented. After sampling and testing, we found much room for improvement. We are currently working on improvements at more than 400 locations nationwide. We selected 108 warehouses assigned as the highest priority for improvements, placing particular emphasis on these locations. We believe that these efforts will produce a certain level of results within the next year. On the other hand, performance levels differ from location to location. Some warehouses have already reached a certain level, while others need to improve from the basics. But we expect variances to occur over time.

We expect automated warehouses matched to the cargo handling style of customers to provide significant cost reductions. However, over-specialization under our current conditions involves significant investment, as well as specifications exclusive to certain customers, making it more difficult to replace customers or change handling methods. For this reason, we are aiming to create semi-automated warehouses that offer flexibility without excess risk.

Q2. What is the situation regarding control of outsourcing costs?

A2. Cargo movement in general has decreased by less than 10% compared to our status prior to the outbreak of COVID-19. This is essentially in line with the forecast by the Nittsu Research Institute and Consulting for a 7.5% decrease in domestic cargo volume for FY2021 compared to FY2019, as stated in their forecasts for the economy and freight forwarding in FY2021.

We are working to maximize the use of company-owned resources and improve utilization rates to reduce outsourcing costs. We have been able to maintain a certain level of results. When cargo volume recovers in the future, we believe the effects of our cost control-measures will be amplified.

Q3. How are you using the vehicle matching tool?

A3. Right now, we only use the vehicle matching function between branches in the immediate vicinity. But we believe it will be possible to expand the number of branches that use the tool in the future. We also believe there is room to create further benefits by standardizing matching rules.

Q4. Can you confirm the progress of the restructuring for operating companies under branches?

A4. We have formulated and are executing measures to improve profitability for each company. Overall, we are making progress essentially in line with plan. On the other hand, there are variances in the efforts among companies. We are following up with them to accelerate their efforts in cases where they are lagging behind. We are also working to consolidate branch offices, while also integrating or closing certain operating companies under branches. We are currently considering whether creating organizations that mirror the current branches will be most optimal.

Q5. In connection with expanding sales of coastal and railroad containers, you are striving to sell safe and environmentally friendly products. Tell us about these products and how you go about stimulating market needs.

A5. Looking at container transportation from the perspective of ESG, we see two aspects: transportation for BCP and response to environmental issues. In August this year, the Sanyo Main Line was interrupted due to heavy rainfall, which continued until early September. This resulted in a significant drop in the volume of railroad containers handled. In recent years, railroads have been disrupted by natural disasters on an annual basis. We are considering offering products in a package with domestic coastal containers as a risk measure.

In addition, coastal and railroad containers are more environmentally friendly than other transportation modes. We are currently developing a tool (One-Stop Navigation) that calculates CO₂ emissions in transportation. This tool will allow customers and others to check the amount of CO₂ emissions per transportation mode. Customers can then select the transportation mode that best suits their purpose by comparing it with lead time and freight conditions.

Q6. What is the status of your efforts to improve productivity by reallocating back office department personnel?

A6. We are consolidating our organization and streamlining our management structure. Here, we are improving productivity by consolidating administrative operations to large branch offices. We completed this reallocation largely in the previous fiscal year. In the future, we will pursue the placement of the right people in the right places further. But we do not see this as a nationwide effort, but rather individual reassignments.

Q7. Tell us more about the recovery in the domestic volume.

A7. The situation differs depending on the industry, and even for the same customer, we see cases where export-related cargo movement is growing while domestic cargo movement is sluggish. Given these circumstances, domestic cargo movement has been stagnant in general and lower than the period before the outbreak of COVID-19. The outbreak of COVID-19 and the declarations of states of emergency have had a significant negative impact on the transportation of food and beverage-related and tourism-related goods. At the same time, office-related cargo movement has been sluggish due to the wider adoption of telework, so the future remains uncertain.

Q8. Page 7 of your presentation materials address new services and products. Will profitability of these services and products be higher than that of existing services? Also, please comment on the market's evaluation of these new services and products.

A8. While it depends on the service, generally speaking, new services and products are more profitable than conventional automobile transportation. For example, the Protect BOX business is a product sold only by Nippon Express, and the product has been highly popular with customers, with a reuse rate that has remained at a high level. For our SEA&RAIL product, the shape of the normal container is different than that of railway transportation and ocean cargo transportation, meaning the products are not compatible with more than one mode. Our Rail Sea Ventilator (RSV) container is compatible with both modes. We are the only company capable of transporting cargo in the same shape, which is a significant advantage. We are working constantly to develop new services and products that offer this kind of competitive edge.

Q9. How are you addressing the 2024 issue, including the Notification of Improvement Standards and overtime regulations? We expect these issues to lead to higher outsourcing costs for truck drivers and worsening efficiencies for your own workforce.

A9. We have already taken measures to deal with the 2024 issue internally, and we do not expect any particular problems to occur. However, there is always a possibility that problems may arise, such as difficulties in arranging medium- to long-distance drivers with subcontractors. With this concern in mind, we are proposing to our customers to switch from truck transportation to container transportation. We want to use this situation as a sales opportunity to increase our revenues.

Q10. Is it correct to assume that long-distance container transportation may become more attractive in the market in terms of cost after 2024?

A10. If the cost of truck transportation rises, we believe that rail and ocean container transportation will become more competitive in terms of cost.

Q11. How do you plan to improve the margins and profitability of your Japan business under the new holding company structure?

A11. Since the current governance function for our global operations will be carried out by the holding company, Nippon Express will become an operating company specializing in business. This means our cost structure will be simplified. After the transition to a holding company structure next year, we will continue to reorganize and integrate overlapping businesses and functions within the group, which we believe will lead to improved profitability.

Q12. How do you manage profit margins of domestic businesses other than your forwarding business? Do you plan to disclose the profitability of each business as a KPI in the future, and what is your approach?

A12. We manage income and expense on a section-by-section basis. This makes it possible for us to measure income, expense, and profit margins of domestic businesses other than our forwarding business by adding up the figures of multiple locations.

However, our current level of management is limited to a rough understanding and does not allow for management at such a detailed level for each business. One of the main pillars of the transition to a holding company structure is upgrading business management. We are building our new system, including a dashboard, to solve this issue efficiently.

With the transition to a holding company structure, we intend to manage each business on a consolidated basis, and we will take the time to examine the content of our disclosures.

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