

September 9, 2021
Nippon Express Co., Ltd.

Questions and Answers (Summary)

IR Day Opening Session (Progress and future of our business plan for achieving our long-term vision)

Mitsuru Saito, President, Chief Executive Officer and Representative Director

Q1. After your transition to a holding company structure, what will be your first focus in your new organization? Will it be an area focus centered on management or a business focus involving restructuring?

A1. We do not plan to focus on area-based management. Economic activities are becoming more diversified and complex. We believe we must take a multifaceted perspective in terms of both area and business as we reorganize. To this point, we have managed our businesses mainly by area unit. But we are thinking about strengthening management on a business basis, shifting to a structure in which we manage businesses on both area and business basis. To make a steady transition to a holding company structure, we do not intend to make any significant structural changes during the first stage. We will, however, continue to restructure toward a structure facilitating further global growth and stronger group management.

Q2. I believe you are now at the stage the shift from non-consolidated efficiency initiatives to a group company approach. Is it correct to conclude that your non-consolidated efforts toward efficiency have run their course? What are your thoughts on the next fiscal year and beyond?

A2. On a non-consolidated basis, Nippon Express has pursued strategies to enhance domestic businesses in Japan aimed at improving profitability. We have established an overall framework and we feel we have achieved a certain level of results. Now, we want to expand initiatives for even higher levels of profitability throughout the group. The first step here will be the grand opening of an integrated facility in January next year. This integrated facility will co-locate our head office, branches serving as the core of land/ocean/air, and group companies. This will allow us to consolidate back office operations in a single location. As a result, we believe that we will streamline duplicated operations, including back office operations of Nippon Express alone and those of our domestic group companies. We still have plenty of room for cost reductions.

In addition, we are aware that warehouse operations are not standardized across all locations, resulting in inefficiencies. For this reason, we conducted a group-wide survey and selected 108 warehouse locations to designate as high priority for improvements. We are now focusing on making improvements in these locations.

Q3. Page 5 of your presentation materials discusses the consolidation and integration of overlapping functions within the group. Is this approach more from a cost-reduction perspective or a top-line growth perspective?

A3. Each company within the group has its own purpose and history. Looking at the current situation of the group as a whole, however, we see businesses and functions duplicated among companies, which is not an optimal arrangement. For this reason, as we move forward in the transition to a holding company structure, we intend to consolidate and integrate these overlapping functions.

For example, both Nippon Express and Nittsu Real Estate have real estate divisions. Nittsu Shoji also has a real estate management function. Nippon Express and Nittsu Shoji conduct banking transactions individually. There are many similar business and functional redundancies. We believe that it is extremely important to eliminate inefficiencies by consolidating and integrating these functions, reorganizing to achieve maximum performance by strengthening businesses and functions to a higher level.

We are studying the effective use of idle or underutilized assets within the group first, converting to cash those assets that we cannot use effectively. In this way, we plan to use assets as a group in a more integrated manner.

We are also looking to build a system to grow and maximize profits by strengthening group management around the holding company.

Q4. At the financial results presentation for the first quarter of FYE December 2021, you left the full-year consolidated earnings forecast unchanged. It sounds like the situation has deteriorated since then. What are your thoughts on the second quarter and beyond?

A4. We take seriously the fact that our stock price fell after the disclosure of first quarter results. We are being very conservative in our forecast for FYE December 2021, since it is so difficult to predict the future, given no sign of an end to the COVID-19 pandemic and the lack of clarity regarding economic trends in Japan and the world.

We believe we will achieve the pro forma forecast of ¥84.3 billion in operating income. While we are performing well in our overseas business, the domestic business is struggling due to the shades of gray industry-to-industry. We must monitor the situation and trends very closely.

Q5. In light of the COVID-19 pandemic, do you envision structural changes to your business? And given these circumstances, do you plan on continuing a conventional approach to M&A activities?

A5. We do not anticipate any major structural changes in our business, but we do see structural changes occurring in industry and customer supply chains. Our customers have been responding to changes in the environment, but we believe that more fundamental changes are occurring now and will continue to occur in the future. These environmental changes could be new business opportunities for us.

With respect to M&A, we still target companies that have strengths in handling ocean cargo in Asia as a viable option. While I cannot discuss the details, we are always looking for opportunities to implement our M&A strategy.

Q6. What do you aim to achieve by shifting to a holding company structure designed to achieve operating margins of 5%? What kind of improvements do you hope to achieve, and in what direction are you evolving?

A6. The transition to a holding company structure will allow us to grow sales further, reduce costs, and pursue the appropriate allocation of management resources. We had some challenges under the previous structure of Nippon Express and subsidiaries. We believe there are great benefits to be gained from the transition to a holding company structure.

After the transition next year, we will continue to reorganize to create a structure for even more global growth and stronger group management. As for the future direction of the company, I think one of the most important topics is how we reform Nippon Express. Market characteristics differ by area. We are looking at ways to build an optimal structure, etc., focusing on the network businesses of Nippon Express.

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