November 12, 2024

NIPPON EXPRESS HOLDINGS, INC.

Financial Results for Q3, Fiscal Year Ending December 2024:
Questions and Answers (Summary)

The financial results presentation on November 12 was conducted via online meeting. The following summarizes questions received and explanatory answers.

(Full-Year Financial Results Forecasts)

Q1. A major component of the revised forecast is a decrease in amortization of intangible assets at CP. At the same time, adjustments have increased. What are the details behind each of these changes? In particular, can you tell us more about the increase in adjustments from last year to this year?

A1. Our revision of the amortization of intangible assets for CP is currently through purchase price allocation (PPA). Based on past M&A experience, we initially thought approximately 50% of the difference between the acquisition price and net assets of approximately 90 billion yen would be intangible assets subject to amortization. Therefore, we assumed that 45 billion yen would be amortized over approximately 15 years, with annual amortization of 3 billion yen. At present, we estimate that intangible assets are 25 billion yen, of which customer-related assets subject to amortization are approximately 4 billion yen. Therefore, annual depreciation is approximately 200 million yen to 300 million yen, and the Q4 forecast is higher by approximately 2.7 billion yen for the difference.

Since Q3 results fell approximately 2.7 billion yen short of forecast, the difference in our estimate of the amortization of CP-related intangible assets in Q4 should make up for the shortage. Companies we acquired in the past have often had a relatively high percentage of customer-related assets, as their primary customers are well defined to a greater extent. The main CP business, however, is forwarding, and we think the amount of customer-related assets has decreased due to the rapid turnover of customers inherent in the forwarding business.

In terms of adjustments, costs increased by approximately 2.5 billion yen compared with the stand-alone Q3 forecast. The main reasons for the increases are increased consulting costs, higher initial year costs for operating our global integrated accounting system, and certain adjustments absorbed when preparing our second half forecasts.

Q2. Looking at page 15 of the presentation materials, it appears that your forecasts for revenues and income by segment has been revised partially compared with the previous plan. What were the factors in each segment leading to these revisions?

A2. The Logistics Japan segment performed well in Q3. Air forwarding, in particular, made steady progress. Given this fact, we revised our forecasts for segment revenue and income upward compared with the previous forecast.

At the same time, we revised forecasts for the Americas downward as monthly performance trends showed constantly changing revenues while costs have risen.

Our upward revision for Europe was based on results through Q3, expected income growth at CP through Q4, and an expected decrease in amortization of CP intangible assets.

In East Asia, profits have improved compared with the previous year, when the region struggled. In Hong Kong, in particular, we expect the significant Q3 rate revisions and contract renewals for warehouses, which had been low-profit contracts, beginning in October will result in a cost reduction of slightly less than 100 million yen on a monthly basis. Based on these factors, we revised revenues downward and income upward.

Revenues have been rising recent in South Asia; however, profit margins have not been growing as easily due to the challenging price environment for air cargo transportation. Therefore, we revised revenues upward and profits downward.

Security Transportation revenues we left unchanged while revising profits downward. This change was due to the remaining cost increase associated with handling the issuance of new bills in July and slightly higher personnel expenses.

We revised revenues and profits downward for Heavy Haulage & Construction based on conditions through Q3.

Logistics Support revenues were revised downward due to a slight decrease in the unit sales price of petroleum sales. We did not revise our profit forecast as we expect an increase in the volume of export packaging in the logistics support business.

(Looking at the Air and Ocean Forwarding Business Trends)

Q1. Pages 18 and 19 of the supplemental materials provide gross profit indicators for Japan and overseas for Q3 through Q4. What is your sense of direction for Q4, and do you think things we get better or worse compared to Q3?

A1. We expect air forwarding volume from Japan to increase by about 8% in QoQ, while gross profit per unit will likely decline. Volume for ocean forwarding should be on par with the Q4 of the previous year, with an increase of about 6% to 7% QoQ. We expect gross profit per unit, which improved significantly in Q3, to decline in Q4.

We expect air volume from overseas to increase by about 8% in QoQ, while gross profit per unit will likely remain at the same level as Q3. We expect ocean volume to decline by about 5% QoQ, while gross profit per unit declines.

Q2: Why is it that volume is increasing for air forwarding from Japan while gross profit per unit is decreasing?

A2. As we enter the peak season for air forwarding amid higher volume of cross-border e-commerce originating from China, we will see a significant increase in purchasing costs for Japan, where space is more limited than overseas. This is a factor that will push down gross profit per unit. Meanwhile, we expect the positive impact of volume growth to be larger, leading to an increase in profit QoQ.

We expect profits to expand in Q3 and Q4 with higher volumes during the peak season for air forwarding and higher demand for year-end logistics in Japan.

(Measures for the Next Fiscal Year)

Q1. What measures do you intend to implement in the next fiscal year? What measures under reorganization in Japan, etc., do you envision contributing to profits?

A1. Measures related to the introduction of an in-house company system at Nippon Express will not likely have an immediate or significant impact on profits. Basically, our most important investments will be mainly in Tokyo, Nagoya, and Osaka. East and west will be managed in a more balanced manner, increasing profitability through initiatives tailored to area characteristics.

It will take some time for initiatives to have a direct impact on revenue growth, but we intend to transform our organization. We plan to work promptly to reduce costs through consolidation and elimination of back office divisions, etc. However, the specific formats will be discussed in the future, so we have yet to determine the scale and other details at this stage. First, we intend to review our organization, reduce organizational hierarchy, and deliver the effects of cost reductions.

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