

December 16, 2024

NIPPON EXPRESS HOLDINGS, INC.

Questions and Answers (Summary) From the Small Meeting With Outside Director Speakers

The small meeting held on December 16 was conducted online. The following summarizes questions received and explanatory answers.

Main Speaker: NIPPON EXPRESS HOLDINGS, INC.

Outside Director	Yojiro Shiba
Outside Director	Yumiko Ito
Outside Director	Tsukiko Tsukahara



Q1: How did Mr. Shiba and Ms. Ito advise and contribute to the discussions on the Business Plan 2028 formulated in February of this year?

A1. (Shiba)

We worked with the management team on the new business plan from the initial stages to discuss strategy direction. We also held 10 meetings since June 2023 in response to explanations from the team regarding medium- to long-term growth strategies in light of market changes and competition. Our discussions focused in particular on the following three areas to ensure the new medium-term business plan supports the company's long-term growth and sustainable development: (1) Setting targets for ROE and ROIC above the cost of capital, (2) Establishing departmental ROIC targets and ensuring their understanding and integration among employees, and (3) Efforts to reduce strategic shareholdings.

Ms. Ito and I also emphasized the importance of communicating the medium-term plan to frontline teams, drawing on examples from other companies. In response, the management team has been working to promote the medium-term plan by creating and sharing videos for employees and holding briefing sessions in overseas regions.

(Ito)

Mr. Shiba and myself are focused invested in discussing with the executive team how to integrate and embed ROIC into the workforce. We also provide input and advice on cash allocation in the medium-term management plan from the perspective of growth and shareholder returns.

Q2. How will you leverage achievement processes and milestones to manage the medium-term business plan leading up to fiscal 2028 targets? Please elaborate on this matter.

A2. (Ito)

I may not have a complete understanding of the operational or business-specific pathways, but from a monitoring perspective, the company has established a framework to set annual key performance indicators from fiscal 2023 to fiscal 2028 and assess plans and results. Additionally, recent developments show that the company has linked its business plan targets to executive compensation and is increasing the proportion of such compensation. At the very least, I feel that company executives have focused on these targets during my year and a half with the company and nearly one year since the start of the current medium-term business plan.

(Tsukahara)

As Director Ito mentioned, current discussions build upon 2028 key performance indicators. The discussions take a hard look at the business portfolio, focusing on how to approach 2028 and beyond. I believe these efforts are not merely formalities.

Q3. The company revised performance down for two consecutive fiscal years. Is this due to a challenging business environment, shortcomings in addressing key issues or implementing policies, or a misalignment in direction? What do you expect from the executive side to drive future improvements?

A3. (Shiba)

I see these revisions as a result of the extremely tough business environment. The unique conditions during the COVID-19 pandemic led to unusually high profits. In contrast, air and ocean freight forwarding has faced significant difficulties over the past year and a half. In the first half of the current fiscal year, forwarding costs from Japan rose, but passing those costs on to selling prices faced delays. However, improvements are evident in the second half, and I expect performance to bottom out in 2024.

(Ito)

I mostly agree with what Director Shiba said. Although I have only served as an outside director for the company for a year and nine months, I initially had concerns about the company underperforming in the market or losing market share. To gain clarity, I requested specific management data and figures from the executive team. This data revealed significant influence from environmental factors. The executive team is fully aware of these factors and has affirmed its commitment to strong frontline operations while advancing a broader strategy.

(Tsukahara)

I agree with what Mr. Shiba and Ms. Ito have said. The board of directors discusses current business performance at each meeting. These discussions not only address short-term factors like personnel expenses but also ensure that strategies remain consistent as the company undergoes a fundamental review of its framework, including organizational restructuring, to achieve the goals of the medium-term business plan. I intend to consistently monitor whether the company is heading in the right

direction while securing short-term performance.

Q4. Grasping the overall picture of NIPPON EXPRESS HOLDINGS Inc. ("NXHD") is challenging, making it difficult to determine whether individual optimizations contribute to broader success. As an outside director, how do you verify and evaluate the effectiveness of these measures?

A4. (Shiba)

NXHD is a company that values safety and quality highly. However, as you mentioned, it can be challenging to see how individual measures contribute to overall success from an outside perspective. In recent years, however, the company has been working to change this culture by emphasizing faster decision-making and execution.

In the past, the company would not take action without the full confidence that everything would go smoothly. The company now launches initiatives with 70–80% readiness under direction from top management. I see this as a significant cultural shift within the organization. At the same time, the company has also entered a positive cycle where swift organizational change continues to accelerate its transformation. I value the company's commitment to not only speed but also thoughtful, gradual progress, which is also evident in its efforts to establish a holding company and organize overseas sales operations.

(Ito)

I see NXHD's strategy as a step in the right direction. I also view M&A as essential to expanding and growing global business going forward. Improving profits is also crucial in the Japanese market. From a business perspective, I believe the company strategy of focusing on both global expansion and increasing profit margins in the Japanese market is the right approach.

However, it appears that the executive team is also struggling to implement this strategy. I believe the challenge lies in balancing a long-term view toward 2037 and the simultaneous need to address short-term issues. I intend to monitor these strategies closely to ensure the company maintains a balance between pursuing medium- to long-term growth and addressing short-term challenges.

(Tsukahara)

I feel that NXHD is a very earnest and dedicated company. For example, the company promptly provides the necessary numbers when I request data on business-specific figures or short-term profit and loss trends in global logistics, domestic logistics, or other business areas.

Looking at the business from various angles, I feel reassured knowing that even in challenging circumstances, the company makes efforts to achieve its set targets.

Q5. As an outside director, how do you view the P/B ratio being below 1x and the ROE falling below 5%?

A5. (Shiba)

I understand that the current low profit levels are a significant factor impacting the ROE. I understand that from an external perspective, it may seem as though company efforts are insufficient. But the company is addressing asset streamlining and making gradual efforts to improve ROIC. The executive team believes that these improvements must be addressed over a certain period of time. From our perspectives as outside directors, we also recognize the company's efforts to carefully address each situation as moving in the right direction toward improvement, even if it takes time.

(Ito)

I see the P/B ratio below 1x as an issue and recognize the importance of generating returns that exceed the cost of capital. Controlling investments is a significant factor in addressing this issue. In my opinion, managing the portfolio is another critical factor. The board of directors has been engaging in serious discussions about these performance indicators and aims to establish a clear direction as soon as possible.

(Tsukahara)

To add to what Director Ito said regarding ROE, I think it is crucial to improve profits in the Japanese business, as well as overseas. Nippon Express plans to implement major structural changes next year by introducing a company system. This system will be designed to deliver value from the customer's perspective. Disseminating ROIC management to the frontlines is challenging. However, we discuss this topic at nearly every board meeting to ensure that each company communicates such management in a clear manner and fulfills its roles.

Q6. Structural factors may be to blame if figures fail to improve next year, even with a better business environment. I suspect next year will be the right time to assess whether the current approach, including domestic restructuring, is effective or if fundamental revisions are necessary. Is this sense of urgency shared across the organization?

A6. (Shiba)

Both the executive team and we outside directors are fully aware of this point. As Director Ito mentioned, we are having in-depth discussions about the business portfolio. We will have opportunities to share more details with you starting next fiscal year. Current discussions explore potential business portfolio adjustments that could qualify as structural reforms.

(Ito)

The Japanese market accounts for a significant portion of company profits. Until now, the company has managed operations, including human resources and pricing, uniformly across Japan. Starting in 2025, however, Nippon Express will restructure operations into Tokyo, Nagoya, Osaka, and East and West regions to promote management tailored to regional conditions. Although there are concerns about potential confusion from the in-house company system, ensuring that operations in Japan remain profitable and capital-efficient is crucial. I observe a shared sense of urgency and crisis that failing to

achieve this path next fiscal year could become a serious issue.

Q7. What are your thoughts on the M&A decision-making process, particularly its strengths and areas for improvement, including the most recent post-merger integration (PMI) for cargo-partner?

A7. (Shiba)

The company previously approached M&A by selecting from proposals that were brought in. However, the company shifted to a completely new approach, two to three years ago, proactively identifying and seeking out targets on its own. Although it is true that EBITDA multiples in the market have risen significantly, NXHD seeks deals with multiples appropriate to its scale. My understanding is that the company was able to invest at that level for cargo-partner. The company also shifted its approach to PMI from previously delegating it to each regional company to now having the holdings company manage PMI directly. I understand that the company has been implementing this new PMI method for cargo-partner, and it appears to be working well so far.

(Ito)

I was impressed by a particular discussion during the board of directors meeting. During this discussion, I raised concerns about the risks of a particular M&A deal based on my legal background. The executives of the project team had already identified these risks and emphasized that they would not move forward unless the issues were resolved. This left a strong impression on me that the board thoroughly considers legal risks before finalizing deals.

The company conducted M&A with Tramo, cargo-partner, and Simon Hegele, and is currently making efforts in line with its global growth targets. However, I believe the company needs to exercise caution, particularly when it comes to allocating human resources. While expertise will likely continue to grow, each individual has limits, making it essential to monitor this aspect closely.

Q8. What is your evaluation of NXHD's approach to M&A?

A8. (Shiba)

Unfortunately, the company seems to have experienced some setbacks in the past. However, I am impressed with how the company has leveraged these past experiences to evaluate and enter into deals over the past two to three years. I have worked in M&A for nearly 40 years, and I can say that, judging by the speed of decision-making and other factors, the company has demonstrated excellent judgment.

(Ito)

My limited exposure to M&A efforts across companies prevents me from making generalizations, but my honest impression is that NXHD excels in some aspects of M&A, but struggles in others.

Q9. What changes have you observed since the transition to a company with an Audit Committee?

A9. (Shiba)

This year's transition to a company with an Audit Committee involved numerous discussions. The most significant centered on delegating authority to the executive team. We have taken the time to discuss this point in detail. These discussions have deepened everyone's understanding, and I believe the company is now well-positioned to ensure sufficient speed in management under this structure. From a governance perspective, overseas operations are growing significantly, with a multinational workforce driving the expansion of operations and business. To this end, compliance and internal management are highly crucial issues. Much work remains in this regard. In my supervisory role, I aim to ensure effective management and strong internal controls, particularly for overseas internal operations.

Q10. What challenges do each of you perceive at NXHD based your individual backgrounds in finance, law, and the Ministry of Land, Infrastructure, Transport and Tourism (MLIT)?

A10. (Shiba)

For future business development, the company needs to execute its basic policies of accelerating business growth in the global market and enhancing domestic business. To this end, I believe the company must take on the major challenge of reforming its internal culture.

(Tsukahara)

I have leveraged my experience in human resources, organizational development, and perspectives from managing various companies to provide constructive input since my appointment. There are several issues that I think need to be addressed, including sustainability and digital transformation. These areas hold significant potential and may not yet be fully reflected in the market's evaluation of the NX Group. I believe further innovation is needed to unlock this potential, and I hope to see more active discussions on these topics.

The company is entering a critical phase of global growth, where effective risk management is a major concern. I believe this is an issue commonly recognized by the directors, myself included. The company must discuss risk management systems for overseas affiliates going forward.



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