



We Find the Way

September 9, 2021

IR Day 2021: Strategy to Enhance Domestic Businesses in Japan

Session 2

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September 9, 2021

Measures for the Strategy to Enhance Domestic Businesses in Japan



Major Initiatives

1. Raise the Level of Marginal Profit from Operations (continue to reduce subcontracting cost ratio)
2. Maximize the use of Company Strengths
3. Restructure Sub-Agent Operations Companies
4. Raise Overall Level of Warehouse Operations
5. Automate, Streamline Office Work (Accelerate RPA initiatives)
6. Deepen Integration of Land, Sea, and Air - Pursue Cross-mode Sales
7. Increase Sales of Protect BOX Business
8. Expand Sales of Domestic Air Transportation
9. Increase Sales of Domestic Air Cargo and Railroad Containers
10. Strengthen and Pursue Arrow Delivery Business
11. Structural Reform of the Moving & Relocation Business

We are working on a variety of initiatives to make our Japanese business more resilient. The major initiatives are as listed here. I will explain the 11 initiatives listed here in some detail.

Overview of Measures to Solidify Japanese Domestic Business

		to FY2020	FY2021	FY2022 onwards
■ Continued decrease in subcontracting cost ratio		Subcontracting cost ratio: FY2020 cumulative YoY -3.0 points	FY2021 Q1 Cumulative (Jan-Jun 2021 cumulative) -3.6 points	-4.1 points
■ Maximize the use of Company Strengths		Utilization rate: FY2021 2H YoY +3.2 points	FY2021 Q1 cumulative (Jan-Jun 2021 cumulative) +3.4 points	+3.7 points
■ Restructure Branch Operating Companies	Support for equal pay for equal work	Complete		
	Restructuring (consolidation)			
■ Raise Overall Level of Warehouse Operations			Initiative to expand to 435 warehouse locations nationwide	
■ Automate, Streamline Office Work	Accelerate RPA initiatives	As of end FY2020 78	As of end FY2021 Q1 144	
	Educating human resources to create RPA		Mid FY2021 Training planned for 670 employees	
■ Deepen Integration of Land, Sea, and Air	Organizational development of cross-mode sales			
	Integrate locations and facilities			
■ Increase Sales of Protect BOX Business		Start sales in July 2020	FY2021 Q1 cumulative 4,610 (shipping base)	
■ Expand Sales of Domestic Air Transportation				
■ Increase sales of domestic air cargo and railroad containers (Sea & Rail)		Start sales on the Kyushu Route in August 2021		
■ Strengthen Arrow delivery business	Improve productivity through operational improvements		FY2021 Q1 cumulative +7.1 points (trunk line load capacity) (Jan-Jun 2021 cumulative +7.1 points)	
■ Structural Reform of the Moving & Relocation Business (expand planners and worker capacity)		Moving & Relocation Planner: FY2020 820 Moving & Relocation Workers: FY2020 786	FY2021 893 FY2021 999	
■ Further personnel reassignments		FY2020 247		

The following is a chronological list of the initiatives, including those that we have been executing to this point in time.
Please refer to the chart.

1. Raise the Level of Marginal Profit From Operations (Continue to Reduce Subcontracting Cost Ratio)

- Leverage company (group) land/sea/air strengths (personnel, vehicles) to the fullest, reducing outsourcing costs, and continue strengthening daily cost controls
FY2021 Q1 cumulative Reduced outsourcing cost ratio YoY -3.6 points
(Jan-Jun 2021 cumulative YoY -4.1 points)
- Strengthening capabilities of business process plans (cost reductions, etc.) at section offices

2. Maximize the Use of Company Strengths

- We are working at all locations to increase company vehicle utilization rates to maximize company strengths
FY2021 Q1 cumulative Company outsourcing cost ratio YoY +3.4 points
(Jan-Jun 2021 cumulative YoY +3.7 points)
- We created a simple tool to match vehicles in each block and branch to leverage our capabilities on a more consistent basis

3. Restructure Branch Operating Companies

- Maximize group synergies to strengthen operating companies
Increase profits at operating companies by utilizing group strengths (personnel, vehicles)
- Strengthen management in terms of compliance (labor hours, equal pay for equal work, etc.)
- Continue restructuring as sub-agent operating companies in view of changes to roles, future prospects, and customers

Overall, domestic freight remains sluggish due to the COVID-19 pandemic, falling short of pre-COVID-19 levels. In response to these circumstances, we will continue to move forward, focusing on consistent and comprehensive cost controls.

In particular, we are doing everything we can on the front lines of businesses to reduce outsourcing costs, making use of matching tools and other measures to use the in-house capabilities of the group to the greatest extent possible. As a result, the outsourcing cost ratio for the period from April to June 2021 decreased by 3.6 points year on year.

The utilization rate of company-owned vehicles for the period from April to June 2021 also improved by 3.4 points compared to the same period in the previous year. We are strengthening our operating companies under branches, which are important to Group competitiveness, by implementing measures to improve the profitability of each company. In addition, we have already implemented measures to ensure compliance with working hour regulations and equal pay for equal work.

4. Raise Overall Level of Warehouse Operations

- Implementing company-wide initiatives to improve productivity of warehouse operations through standardization of operations together with scientific and systematic methods.
- Continuing to implement Introduce Labor-Saving Measures and Automation for 40 businesses

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Initiatives to improve productivity at all corresponding warehouse operations facilities

- Set 30 evaluation standards for our warehouse operations
- Complete first self-checks in all **435** warehouse locations nationwide in line with operations
- Based upon the results of self-checks, promote improvement activities for all corresponding locations towards achieving set goals for next FY.

2

Promotion of important improvement activities at specified locations

- Select **108** priority warehouse locations from around Japan for priority business improvements, and implement focused improvements

3

Education of core personnel to promote improved productivity in warehouse operations

- Introduction of a 6-month Logistics Boot Camp training program for core personnel
- Create a manual of methods to improve productivity based on improvement expertise and scientific analysis procedures accumulated on site.
- Conduct **15** work sessions and practical training for **17** participants carefully selected from across Japan.



To improve the productivity of warehouse operations, we are pursuing automation and labor-saving measures at 40 selected locations nationwide. This fiscal year, in addition to automation and labor-savings measures, we began other initiatives to improve warehouse operations and make advancements in productivity. By June, we had already checked the operations of 435 major warehouses across Japan, and we are currently implementing improvement initiatives at all locations. We are focusing in particular on improvement activities at 108 high-priority locations. We are also considering how to strengthen our organization to move these efforts forward. In addition to automation and labor savings, we are aiming to improve the overall level of warehouse operations.

5. Automate, Streamline Office Work (Accelerate RPA initiatives)

- Voluntary and autonomous development and deployment of RPA on site
Promote RPA (WinActor) developed on site, to automate work processes unique to these sites Actively promote autonomous initiatives

*The head office (Information Technology Promotion Division) promotes development and operation of RPA through consolidation and introduction at head office. = RPA (UiPath)

Continuation and strengthening of training and information sharing

- Take advantage of the characteristics of RPA (independence, mobility, immediate effect) to increase awareness of and disseminate automation methods regarding how to expand the scope of RPA on site.
- Carry out training using e-learning to improve RPA skills, and train personnel to promote these initiatives.
(Planned number of trainees to be trained during FY2021: 670)

Horizontal deployment of already developed, versatile automation examples

- Nationwide horizontal deployment of already developed, versatile automation examples to other branches and locations, thus expanding the scope of RPA
(25 businesses with 389 cases, mainly in back-office operations)

FY2021 Targets (annualized)

Case numbers: **300** Time created: **60,000** hours

FY2021 Q1 Results Case numbers: 144 Time created: 25,089 hours

Currently, Nippon Express is pursuing RPA-based back-office productivity in two ways: large-scale company-wide initiatives driven by the Information Technology Promotion Division and simplified local workplace initiatives. More specifically, the Japan Business Unit has been working to develop and operate simple robots in the workplace using RPA software called *WinActor*. As of June, 144 projects have been developed and implemented. Through education and training this fiscal year, we have increased the number of on-site leaders significantly to 670 individuals, accelerating the development of these initiatives. We believe these measures will speed locally driven automation in the workplace without the need for detailed instructions from the head office.

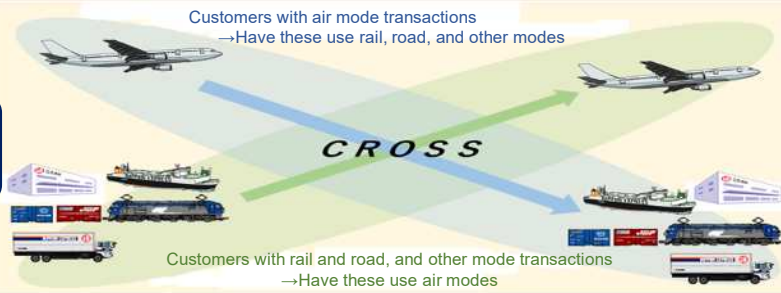
6. Deepen Integration of Land, Sea, and Air - Pursue Cross-mode Sales

- Pursue cross-mode sales
Deploy to existing customers at all locations to acquire transactions other than the current transaction mode

Purpose

All locations in the domestic block will develop sales activities to acquire modes other than current transactions for existing customers, in order to expand the scope of existing transactions.

Specific Initiatives



- Integrate locations and facilities further
Examine and promote further integration of air, sea, and land locations and facilities
FY2020–FY2021: 25 locations

As one measure to strengthen area sales in each regional block, we are developing systematic cross-mode sales by utilizing our land, sea, and air sales capabilities. This is a conference of approach to land, sea, and air sales targeting existing customers in all domestic blocks to expand the school of business by acquiring transportation modes other than the modes in current use. We are making strong efforts in this area in addition to sales along industry and business focuses. As part of our efforts to strengthen the integration of land, sea, and air transportation, we are pursuing location and facility sharing, having implemented this practice at 25 bases between fiscal 2020 and fiscal 2021.

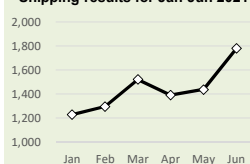
7. Increase Sales of Protect BOX Business

Start nationwide deployment in July 2020
 Reorganize existing services from April 2021, and refresh as Protect BOX Business

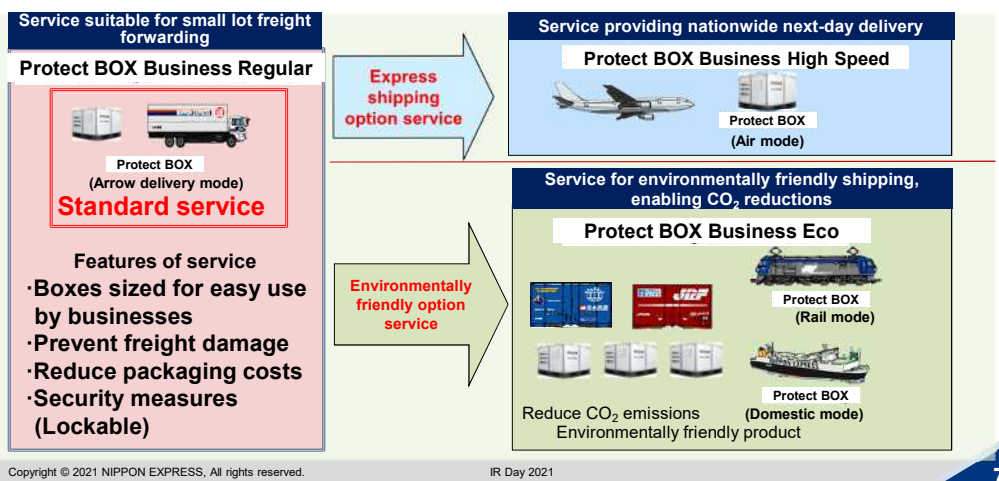
Features of Protect BOX Business service

- Utilizes boxes sized for small-lot shipments, for easy use by businesses
- Multi-mode unit service that can be used for all transport modes — land, sea, and air

Shipping results for Jan-Jun 2021



FY2021 Q1 Shipping base results 4,610 units (YoY 178% increase)



The Protect BOX Business is a new product we launched nationwide in July last year. The product has been very well received and is growing significantly. This Protect BOX is a pallet-sized transport product featuring a honeycomb core material made of lightweight, strong resin. The BOX can carry a maximum weight of 350kilograms. The BOX is transported on a box unit basis, and has been highly evaluated for its reasonable size and advantages, which include protecting cargo from dirt and damage, significantly reduced packaging materials, and a locking function. Although truck transportation is the main way of moving Protect BOXes, optional services are available, including express air transportation, ocean transportation as a modal shift, and rail transportation. As you see, this is a product that matches perfectly with our comprehensive capabilities. Further, the BOX can be folded to a compact size and recovered for repeated use. As a multi-mode unit product that responds to the needs of the times, the total number of units shipped between April to June this year was 4,610 units, a significant increase of 178% over the previous year.

8. Expand Sales of Domestic Air Transportation

➤ Haneda Keihinjima Air Cargo Center Renewal (completed May 2021)

Located adjacent to Haneda Airport, the Haneda Keihinjima Air Cargo Center has been renovated to dramatically improve sorting and processing capacity, and to improve operational efficiency and achieve labor savings. Establishment of a foundation to more rapidly and reliably ship air freight arriving at and departing from Haneda Airport.

Top-down view (multi-story, 3 floors)



Ensure growth potential

·Main automatic sorting capacity ×2

Improve services

·Stable provision of services (punctuality) and quality (reduced damage accidents)

Labor savings Automation

·Labor savings and automation to respond to labor shortages
(Sorting staff: -10%, work time -30 mins/day)
·Automatic sorting ratio (70.5% ⇒92.7%)

➤ Expand sales of domestic air transportation

- Express High-Speed: Air cargo mixed loading service that provides speed and punctuality (pharmaceuticals, medical equipment, maintenance parts, perishable cargo)
- Express High Grade: Air cargo consolidation service that provides security (personal information, correspondence, valuables)
- Consolidated Shipping Service: Service combining multiple orders into a single package for each destination, for shipment and delivery
- Smartphone Consolidated Combo: Service consolidating multiple smartphones or tablets into a dedicated box

Our domestic air transportation business is seeking to expand by introducing new products in a timely manner, including a smartphone shipping container . We renovated the Keihinjima Air Cargo Center at Haneda, our main terminal, to increase processing capacity significantly, as well as to improve operational efficiency and labor savings.

9. Increase Sales of Domestic Air Cargo and Railroad Containers

- Sales start for Sea & Rail Kyushu Route (from August 2, 2021)

Sea&Rail

Domestic intermodal transportation service combining rail and ocean transportation

- Development of a domestic intermodal transportation service connecting the Tohoku and Koshin'etsu areas with the Kyushu area using rail, and our domestic Kyushu Route for sea cargo
- An environmentally friendly and safe shipping service, contributing to ESGs
- An effective way to address truck transport maximum driving time regulations
- Effective for BCP, avoiding disruptions to transportation in the event of abnormal weather or other natural disasters

Optimal for long distance transport

Effective in decarbonization of society

Railway transportation

Railway transportation

Ocean cargo transportation

Sea & Rail Kyushu Route

Ocean cargo transportation

Hokkaido Route

Kyushu Route

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To expand sales of container transportation, we are pushing sales of sea&rail, a domestic intermodal transportation service that combines rail and ocean cargo transportation in a product unique to Nippon Express. The service has been well received by our customers and performance between April and June of this year has grown 117.5% compared to the previous year. In addition to the Hokkaido route, we launched the Kyushu route in August of this year. We are determined to expand sales further by enhancing our services significantly.

10. Strengthen and Pursue Arrow Delivery Business

- Improve productivity through operational improvements
 - Streamline collection and delivery systems
 - Drastically reduce collection and delivery vehicles through reviews of holiday deliveries
 - Streamline trunk line system through reviews
 - Improve load capacity management +7.1 point improvement (FY2021 Q1 weekday average)
(+7.1 point improvement (Jan-Jun 2021 weekday average))
- Expand sales by increasing sales of new products, and cultivating new customers
 - Increase regular sales of Protect BOX business
 - Pursue cross-mode sales

11. Structural Reform of the Moving & Relocation Business

- Develop system that leverages our advantages
 - Establishment of a system in which all locations work as the main business
 - ➔ Strengthen and expand our ability to target corporate customers, as well as individual customers at times of increased demand

(1) Hire more planners	More numbers of pre-inspections to achieve these KPIs
(2) Hire more moving & relocation workers	Expand capabilities to handle weekends and other periods of increased demand
(3) Increased utilization of Remomi®	COVID-19 has resulted in increased needs for non-contact. Therefore, we plan to improve customer convenience, office efficiency, and the numbers of pre-inspections conducted for corporate customers, remote areas, night shifts and further use of digital tools.

<Expanding capabilities>

◆ Planners

Year	Count
2020	820
Increase	73
2021	893

◆ Moving & Relocation Workers

Year	Count
2020	786
Increase	213
2021	999

We will continue to work on both growing sales and making efficiency improvements in our Arrow delivery service, which is a combined cargo business. Productivity has been improved to a significant degree by reviewing our trunk line transportation collection and delivery system. A dedicated team at the head office and sales growth in Protect BOX and other products have been effective, and we will continue our efforts in these areas.

The Moving & Relocation Business is endeavoring to add planners and moving staff to expand corporate customers, a particular strength of Nippon Express. We are also strengthening our ability to respond to customers during peak times. And while overall domestic demand for moving is sluggish due to the COVID-19 pandemic, our remote estimate service, *Remomi*, has been well received. We are leveraging this service to expand sales further.

The challenging with-COVID-19 economy and other factors in Japan continue, and cargo volume has not recovered to pre-COVID-19 levels in many sectors. However, we believe that there is a possibility that the domestic economy will recover along with the expansion of vaccinations in the future. At the same time, we recognize the need to take measures to both control costs and expand sales. To achieve the goals for our Japanese Business, we will continue to develop and improve our strategy to enhance domestic businesses in Japan and for our growth strategy for our core businesses.



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