November 12, 2020

Kintetsu World Express, Inc.

Teleconference Q&A Session Summary 2Q FY Ending March 2021

Q1: On this occasion you revised performance forecasts upward, but left the dividend forecast unchanged. Can you elaborate on this?

A1: As the market outlook remains uncertain due to factors including the resurgence of COVID-19 worldwide, we intend to review the dividend again once full-year performance results are tabulated.

Q2: Currently, operating income has increased significantly, attributed to a rise in freight costs following a reduction in cargo space. In terms of factors that could drive a return to ordinary profit levels, would the reinstatement of passenger flights impact current freighter capacity?

A2: That is our perspective, but we expect the shortage of cargo space to continue for some time yet. On the other hand, because shouldering the burden of higher-than-usual freight costs by customers over a prolonged period will have a significant negative impact on their business, we believe that they will consider different supply chain strategies, such as modal shifts and a build-up inventories. In response to that, we, too, will work to propose the best solution for our customers.

Q3: Operating gross profit margin in the first half was 17.9%, and the full-year forecast is 18.0%, so it appears that you expect profitability in the second half to be maintained at the same level as in the first half. Please provide some details on the situation for current air freight costs and profit margins.

A3: Air freight costs peaked in the period from April to May, temporarily declining in some regions over the summer, but have more recently trended upward. Lower rates have been seen in some trade lanes as chartered flights seek to maximize cargo allocation. Should this trend continue, we believe it may impact larger pricing trends.

Q4: Have there been any recent changes in commodities handled compared to those of your competitors?

A4: A large part of our business serves electronics manufacturers, as well as major automotive brands and parts suppliers. However, the base that supports the automotive industry is broad, and we recognize that our market share with auto parts suppliers has room to grow.

Q5: Given the projection that demand trajectory in the United States is recovering after its period of lockdown, is the operating income forecast for APLL in the second half-year conservative by comparison?

A5: While APLL's performance is beginning to improve, COVID-19 continues to spread in the United States and the national outlook remains uncertain. For that reason among others, we have set a conservative forecast.

Q6: Sea freight costs are soaring. Have you been able to pass these on to your customers?

A6: Customers are aware of the ongoing situation, and we are thankful to have been able to gain their understanding.

End