Message from the CFO

Continuing to Focus on Increasing Shareholder Value and Corporate Value

Toshizo Kurisu
Representative Director, Executive Officer and Vice President

Review of the Previous Medium-Term Management Plan "One YAMATO 2023"

Under our previous Medium-Term Management Plan "One YAMATO 2023," which ended in the year ended March 31, 2024, we promoted reforms that progressed the Company toward our target business structure for the Group under the One YAMATO structure. These included structural reform of network operations and expansion of the corporate business domain. Regrettably, we were unable to reach our performance targets of operating profit of ¥120.0 billion, operating profit margin of 6%, and ROE of 10% or higher. We were unable to respond completely to factors such as increased costs, which were driven by changes in the external environment such as rising resource and energy prices and wages, a fallback in demand after the COVID-19 pandemic subsided, and a slump in demand due to a decrease in real wages. In this situation, we aimed to maximize earnings per share (EPS), which is related to share price and dividends, through a resolution to liquidate our overseas consolidated subsidiaries and the introduction of the Japanese Group Relief System, and strove to implement financial strategies, such as selling non-current assets. Despite these efforts, we did not reach our promised targets, and I take this very seriously as a business manager. Looking ahead, I will accelerate our business reform initiatives, assuming even greater uncertainty in the external environment.

Scenario for Achieving the Targets of the Medium-Term Management Plan

Under the Medium-Term Management Plan "Sustainability Transformation 2030 (SX2030)~1st Stage~," which finishes in the fiscal year ending March 31, 2027, we aspire to become a "value creating company that contributes to the realization of a sustainable future." Our plan is to simultaneously create economic value as well as environmental and social value, while realizing a medium- to long-term increase in corporate value.

To achieve the performance targets provided in the Medium-Term Management Plan, we will prioritize efforts to strengthen the earning power of the core Express Business. In particular, it is important to strengthen our *TA-Q-BIN* network, which is the foundation of the Yamato Group, in response to changes in the business environment, as well as providing valuable products and services to customers. Up until now, the Company's Sales Drivers (SDs) have supported the growth of *TA-Q-BIN* through their accumulated conversations with customers when delivering parcels, leading to further business. For example, they ask parcel delivery recipients if they have any parcels for dispatch, or ask recipients of parcels from overseas whether they have had any difficulties in importing. When making *TA-Q-BIN* deliveries to customers who are using other delivery companies for shipping, our SDs take the opportunity to engage in sales talks with them. Recently, however, as non-contact needs such as EC demand and work style reforms spread under the COVID-19 pandemic, the main duties of SDs have become deliveries, and I feel that awareness of sales, including management roles, has faded. The Group's sales happen through person-to-person contact. They cannot simply be decided by price alone. We will use our management resources concentrated together as One YAMATO to provide services that delight our customers while receiving appropriate consideration for them. This return-to-our-roots approach will deepen our conversations with customers and lead to sales opportunities, thereby enabling our customers and the Yamato Group to grow together.

The foundation for these activities is our network operations, where we are promoting structural reforms that we plan to complete over this three-year period. By consolidating and enlarging our last-mile pickup and delivery facilities, we will standardize the workload for SDs and eliminate excessive loads, which should create some flexibility in our operations. Then, we can leverage this flexibility to increase the amount of time for conversations with customers. It will take around two years to realize the optimal allocation of facilities and human resources, but we are already making progress with our facility strategies and related human resource and digital strategies based on our overall design.

However, as we promote our facility strategies, we need to be wary of making consolidation itself the objective—that would be putting the cart before the horse. We will objectively analyze the differences between our envisaged and actual investment results due to factors such as regional characteristics, and share issues with management and the Business Department in order to make improvements and appropriate investment decisions going forward. For this reason, we will utilize ROIC as a common indicator in future decisions. We recognize that our immediate challenge is to internally promote ROIC and incorporate it in our frontline operations. To achieve this, we will build a structure that naturally connects the KPIs pursued in our frontline workplaces and in each division to increasing ROIC in our administrative units, such as regions, businesses, and groups.

Capital Allocation

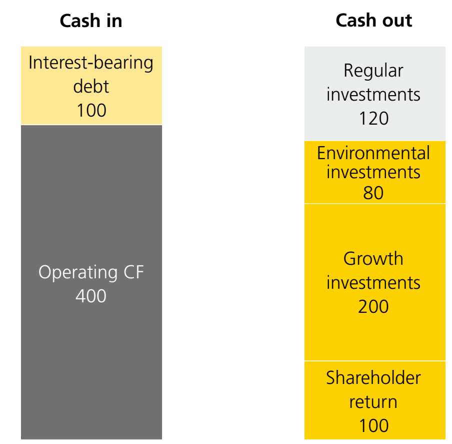
During the period of the current Medium-Term Management Plan, we will make aggressive growth investments aimed at strengthening the earning power of the Yamato Group, especially in the Express Business, which is our base domain. In doing so, we will promote our facility strategies and digital transformation, among others, while carefully examining the effects of investments.

In addition, we will make environmental investments, including the introduction of EVs and solar power generation facilities, promote the development of energy management systems, and so forth. These investments will not only reduce our GHG emissions but will also help to reduce costs by improving energy efficiency, which will lead to growth in operating revenues through the value proposition of reducing the Scope 3 emissions of our corporate customers. I believe that the expertise we have accumulated in environmental investments and demonstration tests undertaken with our partners will also play a role in new businesses that will contribute to the overall sustainability of society and the logistics industry. For example, the introduction and operational support for commercial EVs that we are undertaking in the Mobility Business.

Capital Allocation under the Medium-Term Management Plan

Cumulative image for the 3 years (FY2025/3 – FY2027/3) without the impact from M&As*

(¥ billion)



* Please refer to P.29 for information about our M&A strategy

Investment policy

- **Growth investments**
  - Focus on facilities strategy, digitalization, creation and expansion of new businesses
  - → Set ROI at a level above WACC
- **Environmental investments**
  - Invest from the standpoint of GHG emissions reduction and enhancing financial value

Shareholder return policy

- **Dividends**
  - Focus on stability and continuity of dividend
  - Aim to grow dividend per share, while being mindful of DOE
  - Dividend payout ratio: 40% or above
  - Total shareholder return ratio: 50% or above
- **Acquisition of our own shares**
  - Consider acquisitions flexibly, based on factors such as the progress of disciplined growth investments (ROI above WACC), cash flow, share price, etc.

Message from the CFO

Furthermore, we have positioned the Contract Logistics Business and the Global Business as growth domains, and we are examining multiple M&As as a means of accelerating their expansion. The operating revenues target for the fiscal year ending March 31, 2027, is between ¥2.0–2.4 trillion. We envisage achieving ¥2.0 trillion through organic growth and a further ¥400 billion through M&As. The Business Department and dedicated M&A departments will work as one to ensure financial discipline with regard to ROIC and other aspects. In recent years, M&A activity in the domestic logistics industry has been increasing. However, to discern which companies are a sound investment, it is necessary to look beyond financial figures alone and consider the candidate company's business model and the potential synergies that could be generated by combining its human resources and customers with those of the Yamato Group. When we do this, we work with the Business Department through due diligence to check the governance of the target company, and proceed with discipline, including in areas such as post-merger integration, making every effort to reduce risk.

In shareholder returns, we have increased the dividend payout ratio from the previous level of 30% to 40% or higher. For many years, we have maintained stability and continuity in dividends, with an awareness of DOE (ratio of dividends to shareholders' equity). However, in light of individual investor trends under the new NISA system, we felt it was time to set our dividend payout ratio higher in order to appeal more to investors. Moreover, we have maintained a total return ratio of 50% or higher.

In the financial results for the second quarter of the fiscal year ending March 31, 2025, we announced a treasury share acquisition with an upper limit of ¥50.0 billion from a capital efficiency perspective. Going forward, we will continue striving to generate cash and make effective use of debt by strengthening balance sheet management, looking to prioritize growth investment while also allocating cash for shareholder returns.

Balance Sheet Management

With regard to financial soundness, we aim to continue having an equity ratio of around 45–50%, while maintaining our credit rating (Rating and Investment Information, Inc.; AA–). In addition to aggressive growth investments, in principle we procure funds through borrowings from financial institutions and the issuance of corporate bonds. Based on our demand for funds going forward, we have been pooling funds within the Group. However, we will conduct fund procurement at the appropriate time to cover shortages, while giving consideration to the phase of rising interest rates going forward.

Moreover, while promoting measures such as the reinforcement of the *TA-Q-BIN* network, from a perspective of capital efficiency, we are also examining measures to reduce the size of our balance sheet. Looking ahead to the revision of lease accounting standards that is scheduled to take place in Japan, we consider our options for holding assets to include ownership, leasing of properties, and asset securitization. Naturally, if we simply expense everything, then we can cause undue degradation to our profit and loss statement, so it is necessary to keep a balance as we proceed. However, in addition to our existing assets, we also consider this as an option for assets to be acquired under our facility strategies.

Increasing Corporate Value

In addition to rising interest rates, we have also seen a rise in volatility in company financial results in the past few years. We recognize that this has resulted in a higher cost of capital than in past years. To realize a return on capital that exceeds the cost of capital, we must resolutely carry out structural reforms, reinforcing the existing *TA-Q-BIN* network and expanding the corporate business domain to establish a business structure than can achieve stable profit growth. Furthermore, we will conduct clear information disclosure in line with the Yamato Group strategies, such as the change in reportable segments that was conducted in the fiscal year ending March 31, 2025. By having deeper conversations with shareholders and investors, we will reduce the cost of capital, which will drive increases in both shareholder value and corporate value. I hope you will look forward with expectation to the Yamato Group creating value throughout "SX 2030 ~1st Stage~." While maintaining a healthy financial position, we will accelerate investments for the Yamato Group's growth.

Investment Plan for the Medium-Term Management Plan: ¥400 billion (excluding M&As)

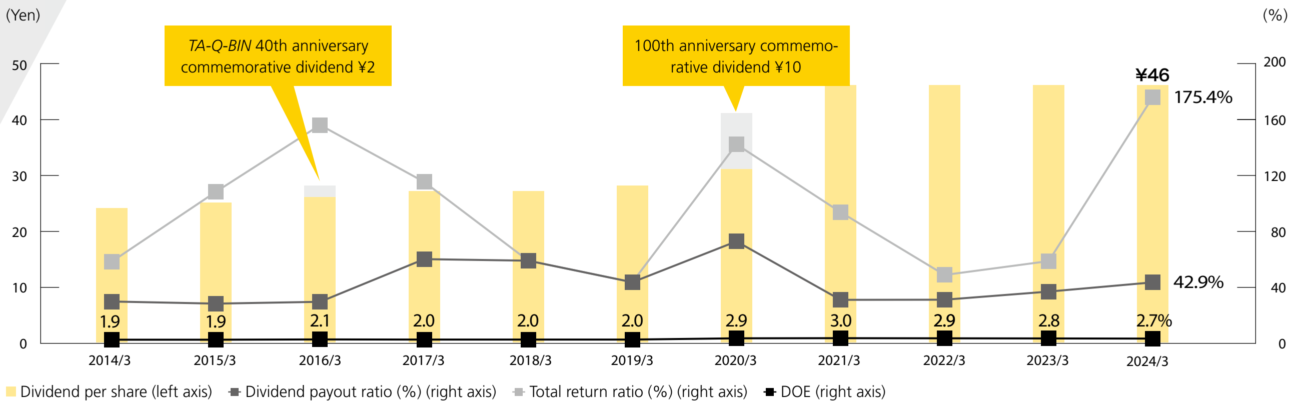
	Three-year investment amounts	Transaction	Objective
Growth investment ¥200 billion	¥140 billion	Facilities strategy	Enhance productivity and reduce fixed costs Create a worker-friendly workplace
	¥50 billion	Promoting DX	Productivity improvement through operational reform Enhance value provision to customers
	¥10 billion	New businesses	Create new businesses that contribute to future business growth and to a sustainable future
Environmental investment ¥80 billion	¥40 billion	3,250 EVs* and charging equipment	Realize a low-carbon society, and provide corporate clients with logistics services that have low environmental impact
	¥40 billion	Solar power generation, batteries, etc.	
Regular investment ¥120 billion	¥50 billion	Repair of existing *TA-Q-BIN* facilities, internal combustion vehicles, etc.	Maintain existing network
	¥70 billion	Maintenance of other facilities and existing systems, etc.	Maintain existing business, etc.

* EV introduction plan for 8,500 vehicles (investment: 3,250 vehicles, operating lease: 5,250 vehicles)

Policy and Performance on Shareholder Returns

We emphasize the stability and continuity of dividends, targeting a dividend payout ratio of 40% or higher and a total return ratio of 50% or higher in our Medium-Term Management Plan. Furthermore, we will take a flexible approach to share repurchases, giving consideration to the status of progress of our growth investments, cash flow trends, share price, and other factors.

Shareholder Return Results (Fiscal Year Ended March 31, 2014, to Fiscal Year Ended March 31, 2024)



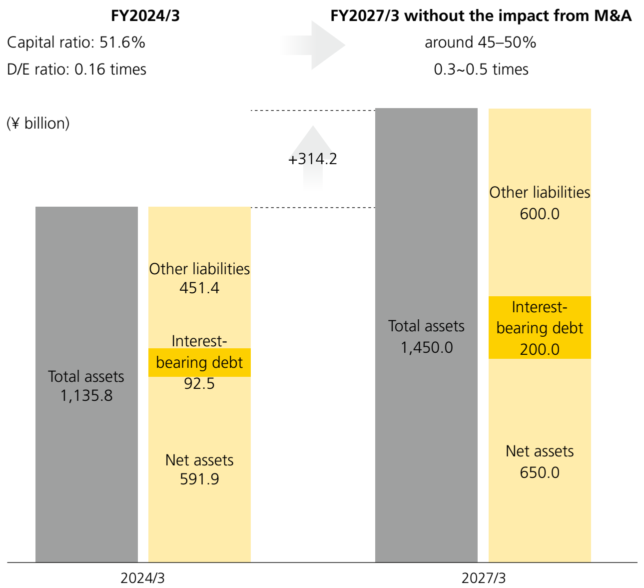
Balance Sheet and Capital Effeciency Improvements

Balance Sheet Management

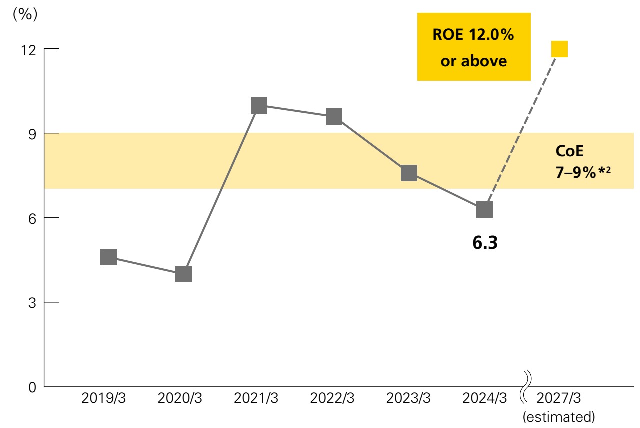
Maintain financial soundness, while actively investing in growth, including investments funded by debt

[Financial discipline]	Capital ratio: around 45–50% D/E ratio: 0.3~0.5 times
[Financial soundness]	Credit rating (R&I): AA-

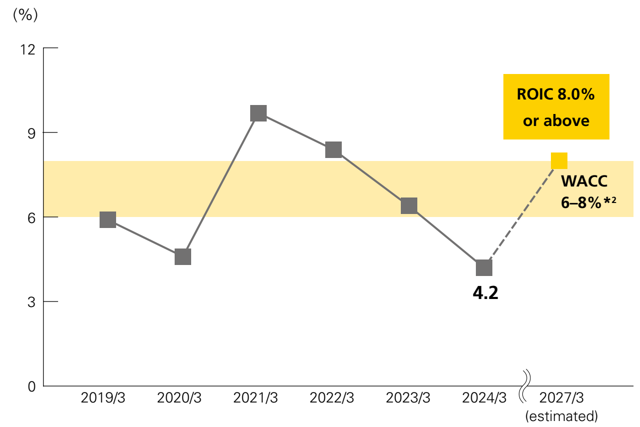
Image of Balance Sheet



ROE (vs CoE*1)



ROIC (vs WACC*3)



*1 CoE: cost of shareholders' equity
*2 Assumptions for the period during the Mid-Term Management Plan (FY2025/3–FY 2027/3)
*3 WACC: weighted average cost of capital