NISSAN
MOTOR CORPORATION

Analyst Session for Fiscal Year 2021 Financial Results
Q&A

Date/Time : May 12, 2022, 18 :00-19 :00

Speakers :

Makoto Uchida Representative Executive Officer, President & CEO
Ashwani Gupta Representative Executive Officer, COO
Stephen Ma Executive Officer, CFO

Questions and Answers

Question 1:

What is the assumption behind the forecast of only a 3% growth in sales volume?

Answer 1:

Gupta: The 3% increase in sales volume is the consequence of supply chain constraints. We have the potential to sell more if we can secure semiconductors. On the other hand, there is a risk of a China lockdown, and we will continue to see an impact through to June. Considering the risks and opportunities, sales volume of 4 million units is a realistic assumption.

Question 2:

Please elaborate on the shareholder return policy going forward.

Answer 2:

Uchida: FY21 year-end dividend of 5 yen/share means a 9% payout ratio. We would like to continue raising this to a 30% level.

For FY22, the interim dividend is TBD considering the current challenging business environment and risks of automotive free cash flow for the 1st half of the fiscal year. However, on a full year basis, we would like to pay 5 yen or more.

There are media reports regarding the sale of Nissan shares by Renault, but we are not in discussions about such matters.

Question 3:

How much of the impact from the increases in raw material prices and logistics costs do you expect to offset by increasing pricing?

Answer 3:

Ma: We will find ways to compress the cost as much as we can. In FY22, we are forecasting a negative impact of 212 billion yen from the increase in raw material prices, out of which more than 70% is steel and aluminum. For steel, we do some physical hedge, i.e. pre-buying and increasing inventory. For some other materials, we do financial hedge (approximately 10% of exposure of such materials).

In FY22 outlook, we are expecting the pricing to go up, but it is not just for covering costs. it is more the consequence of good products and good quality of sales. In the operating profit variance analysis (on page 12 of presentation), many factors such as volume, pricing, mix, etc. are included in the performance, which absorb the negative impact of raw materials and logistics costs.

Question 4:

What are the potential risks related to the Russia business, which could impact the company's performance going forward?

Answer 4:

Uchida: In FY21, we had sales volume of approximately 50,000 units in Russia/Ukraine, but in FY22 we are assuming zero units. We booked an expense of approximately 15 billion yen in FY21 related to the investments and inventories in Russia/Ukraine. We have incorporated the visible risks as of now in our FY21 results.

We need to continue to monitor the situation carefully and take appropriate actions going forward. When we announced Nissan NEXT, we already booked an impairment loss, so we don't expect significant additional expenses.

Ma: Renault booked a charge of approximately 2 billion euros, which impacted Nissan by 37.4 billion yen. In addition, Nissan booked approximately 15 billion yen related to our own Russia business. The impact was not so big as we booked a global impairment two years ago and had marked the assets to a more realistic level.

Question 5:

Is it correct to understand that the key point of the FY22 outlook is how much Nissan can increase the operating profit from 250 billion yen by offsetting the impact of cost inflation?

Answer 5:

Gupta: Sales volume of 4 million units is just the reference, and there are opportunities depending on the semiconductor supply, as well as risks such as the China lockdown.

Also, there are markets which can and cannot absorb inflation by the purchasing power of customers. For example, we may increase pricing to cover for inflation in the US, but we may not be able to do the same in Japan as the purchasing power of Japanese customers is not increasing as in the US. We will address it market by market, product by product.

Question 6:

Renault said that in CY22 there will be an impact of 200,000 units due to the semiconductor shortage, but it will generally normalize in the 2nd half of the year. Are there any differences between Renault and Nissan?

Answer 6:

Gupta: We cannot compare the semiconductor shortage magnitude with Renault as the product lineup and market lineup are different.

It is difficult to quantify the impact of the semiconductor shortage. What we can say now is that we first got the visibility of what we can produce, and considered opportunities and risks to come to 4 million units.

Question 7:

Where are the markets which are easier to increase prices, and the markets which are more difficult?

Answer 7:

Gupta: We are not increasing the price unless the customers are willing to pay. In the US, we increased the value of our new models, and then used this opportunity to reduce incentives. This is the consequence of the transformation of quality of sales.

In Japan, it is difficult to increase pricing as the customer purchasing power is not increasing. In Japan, we need to capitalize our new technology, new products etc. We create value and have customers enjoy what we offer where competitors don't, such as kei EV and Ariya. However, in the US, the Big 3 are increasing prices for pick-ups, and we will follow them.

We will decide on the price market by market, taking into consideration the customers, the competition, our product power, etc.

Question 8:

In light of the slight decline in margin in FY22, how confident are you in achieving the operating profit margin target of 5% on a China JV proportionate consolidation basis in the next fiscal year? Your sales volume assumption for FY22 is low, but how do you assume to increase it towards next fiscal year?

Answer 8:

Uchida: In FY21, despite the challenging environment, we achieved an operating profit margin of 3.7% on a proportionate consolidation basis, and our rationalization is progressing ahead of the plan. If we continue this momentum, I am confident that we can achieve the 5% target in FY23.

On the other hand, we need to pay close attention as there are uncertainties such as what is happening now in China. The Russia/Ukraine situation may also become a big risk if there are any unpredictable developments, so we need to closely monitor how it is going to impact the global economy.

As for volume, we are seeing the impact from the lockdown in China in April and May, which is impacting not only Nissan but other competitors too. I don't think this will last long, and if things become more visible, we should be able to show a more precise volume guidance.

Question 9:

What are Nissan's thoughts on the reported spin-off of Renault's EV business?

Answer 9:

Uchida: I would like to first understand Renault's plan. We are hearing their explanations and digesting the information. At the moment, we are not in a position to share Nissan's opinion on this matter.

We continue to collaborate with Renault and what we announced as the Alliance in January is not going to change because of Renault's announcement.

Question 10:

In FY21, the automotive business was loss making and the sales finance business made a big profit as there was a one-time gain. In FY22, do you expect a decrease in profit in the sales finance business, and offset that by an increase in profit in the automotive business? Why do you think you can improve profitability of the automotive business when the sales volume is growing by only 3%? What is your view on the fixed costs?

Answer 10:

Ma: The automotive business was still loss-making in FY21, but improved significantly from FY20. In FY22, we have a good chance of making it breakeven.

For the sales finance business, with the introduction of new models, the customer profile and quality of asset portfolio is improving, but we expect profit to decline as there will be no more one-time gains and as the size of assets decline.

Gupta : The current level of fixed cost is at a bare minimum if Nissan wants to operate in the 4 core markets (Japan, North America, China, Europe) with a significant presence. As such, we don't have intention to further cut the fixed cost, but we will work on continuous improvement.

Question 11:

Is it correct to assume from net revenue growth and FX rate assumptions, that the wholesale volume is expected to grow by around 15% in FY22? Do you think you can further reduce incentives in FY22?

Answer 11:

Ma: You are in the right direction, but you also need to consider the mix impact.

As for incentives, the magnitude of reduction was larger than the industry average as we came from a higher base. We may still be slightly higher than other Japanese competitors, but it is very low compared to historical levels. We would like to keep the same level in FY22.