NISSAN
MOTOR CORPORATION

Analyst Session for FY22 Q1 Financial Results
Q&A

Date/Time : July 28, 2022, 18 :30-19 :30

Speakers :

Ashwani Gupta	Representative Executive Officer, COO
Stephen Ma	Executive Officer, CFO
Rakesh Kochhar	Senior Vice President, Treasury and Global Sales Finance

Questions and Answers

Question 1:

How do you assess Q1 results?

Answer 1:

Gupta: Q1 results were better than our expectation, not just because of the tailwind coming from foreign exchange, but also coming from quality of sales and operational efficiency. We were able to deliver this despite the volume drop of 15% versus the plan. Our sales performance offset the negative impacts of raw material price hike as well as the volume drop due to the Shanghai lockdown and semiconductor shortage.

Question 2:

What is the likelihood of achieving the global sales volume outlook of 4 million units?

Answer 2:

Gupta: Production is recovering, and we are challenging 4 million unit sales. In Q1, we were able to achieve OP of 64.9 billion yen with 15% less volume, and we are confident about achieving the OP and net income outlook with a little more production recovery.

Ma: We have visibility for a better Q2 than Q1, and we assume the recovery will continue to Q3 and Q4. Q2 will be slightly less than 1 million units, and Q3 and Q4 will be slightly more than 1 million units.

Question 3:

Are there any risk factors for Q2 onwards, such as an economic recession? What are the factors behind keeping the OP outlook of 250 billion yen?

Answer 3:

Gupta: We are not revising our forecast just because of the tailwind from foreign exchange. We will mitigate all the risks, such as the semiconductor shortage and raw material price hike, by operational efficiencies and quality of sales.

Ma: In Q1 the volume declined versus the plan by 15%. We think that the volume will recover going forward, but it may not recover as fast as we think. That's why we are watching for another 1-2 months. At the H1 announcement, if the assumptions are more stabilized, we can share the updated visibility.

Question 4:

Are there any risk factors for the sales finance business?

Answer 4:

Kochhar: Sales finance profit for FY22 will be lower than the previous year, because of last year's one-time gains from provision release. We also have an additional headwind of high interest rates, which will have an impact on penetration. Also, less car sales means less assets. On the other hand, credit losses remain low, used car prices continue to be high and customers continue to pay well. In summary, we expect a solid year for the sales finance business.

Question 5:

Please elaborate on the factors behind 15% underperformance in volume.

Answer 5:

Gupta: Out of the 15%, 8% is coming from the Shanghai lockdown and 7% is coming from semiconductor shortage. Half (Shanghai lockdown) has recovered and the number of commodities impacted by the semiconductor shortage is decreasing. However, the semiconductor shortage will continue, and we will minimize the impact by measures such as developing second sourcing, mid-term supply contracts, etc.

Question 6:

Please update on the price increase.

Answer 6:

Gupta: We are increasing prices, but not just to pass on the increase in raw material costs. We are increasing the net revenue per unit by selling the value to customers. We will be persistent with our pricing strategy, which is focusing on the value, reducing the incentives in line with the market, and working more on the cost structure.

Ma: We are carefully monitoring what competitors are doing, to make sure we maintain our competitiveness.

Question 7:

How is the dealer traffic and outlook for demand in the US, where the macro economy is slated to decline?

Answer 7:

Gupta: Normally when recession happens, the automotive industry is one of the first ones to get hit, but this time, as demand is much higher than supply, I think the automotive industry is one of the last ones to get hit.
For Nissan, there are 5 things are going in the right direction in the US.
1) Products have very good momentum and customer acceptance
2) Customer-facing transaction price is increasing
3) Lean inventory with high sales efficiency
4) Dealer engagement score remains high
5) Being ahead of competitors to announce electrification investments
On the other hand, cost of funds and inflation remain the challenge, but we have enough tailwinds to offset the headwinds, at least in FY22 and the first half of FY23.

Question 8:

With the purchase tax reduction for ICE cars in China, are there any change in your sales? How is the profitability for the China JV?

Answer 8:

Ma: The tax reduction in China benefits many Japanese OEMs including Nissan. Our key model, Sylphy, is also eligible for this tax reduction. We are trying to take advantage of these benefits and support.

As for China JV profitability, we will not have as much contribution from China in Q2, which is in the midst of the Shanghai lockdown, but it will come back in Q3 and Q4.

Gupta: As for sales policy, we are focusing more on Tier 3-4 cities, especially with engines with less than 2 liters. This is an opportunity for us to explore the customers in Tier 3-4 cities.

Question 9:

Do you think the competition would intensify in the US, and if so, how do you see the sustainability of improvement in incentives?

Answer 9:

Gupta: The control of incentives will continue. Stability of incentives will come when supply will be the same level as demand, but we don't believe this would happen in 2022 or 2023 due to the continued semiconductor shortage.
What is important is how we control the value of the product, to improve our profitability in the US.

Question 10:

What are your prospects for free cash flow?

Answer 10:

Ma: Automotive FCF was negative in this Q1, not because of our profit, but mainly because of the working capital. This is because the volume was lower than what we had expected, and we had a build-up of parts/raw materials inventory that we were planning to use for production. Also we produced cars which were not completely finished due to the chip shortage, but this will resolve in Q2/Q3.
We believe FCF should be positive for Q2 onwards.

Question 11:

Sakura is selling very well. How do you see the kei EV market in Japan?

Answer 11:

Gupta: 40% of the market in Japan is Kei. When we look at our customers today, 53% are new to Nissan. They are buying Kei EV because it is not the typical Kei Car from the viewpoint of space, driving acceleration and engine noise. While the autonomy of the Kei EV is 180 kilometers, the average commute for these customers is 15 to 20 kilometers a day. With home charging, especially with smart charging at midnight, the electricity cost can also be cheaper.

With government subsidies, the entry price for customers is almost on par with the ICE Kei. Furthermore, the total cost of ownership is much better because within one year, the difference between the Kei EV and the ICE will be finished. Therefore, we believe that there is a great opportunity in Japan.

However, in order to enhance EV awareness in Japan, we need domestic competition. I believe that in the near future, our competitors will be ready with their EVs and that competition will create further awareness of the market. That will be a great opportunity for all of us to move forward.

Question 12:

Infiniti should be one of the big contributors to enhance Nissan's brand value. What is your position on Infiniti, and what are the challenges?

Answer 12:

Gupta: The first step we took was to bring back Infiniti from Hong Kong to Japan, and the second step was for Infiniti to use the Monozukuri assets of Nissan to enjoy the economy of scale. We launched QX55, QX60 and QX80 but it was impacted by the semiconductor shortage. We want Infiniti to grow and move forward in the 2 key markets, US and China.