NISSAN
MOTOR CORPORATION

Analyst Session for FY22 Q3 Financial Results

Q&A

Date/Time : February 9, 2023, 18 :30-19 :30

Speakers :

Ashwani Gupta — Representative Executive Officer, COO

Stephen Ma — Executive Officer, CFO

Questions and Answers

Question 1:

How do you assess the US incentive situation?

Answer 1:

Gupta: Our incentives are increasing, but it is in line with the market.

Ma: We are trying to maintain competitiveness. We try not to give cash incentives, but use more interest rate subvention as US customers are more caring about monthly affordability. It also helps to keep customers in our captive finance business for a longer term.

Question 2:

Retail sales volume excluding China is expected to increase by more than 200K units in Q4 compared to Q3. Do you expect your production volume to recover, and if so, how sustainable is the recovery? Please update us on the semiconductor supply situation.

Gupta: Situation is improving, but it is not perfect. In FY23, the situation will be better, but the supply shortage will continue. We have seen production recovery in Japan and Europe, which is not only driven by the semiconductors, but also by other factors in supply chain.

Question 3:

There is a big decline in volume compared to the previous outlook. Please elaborate on what kind of semiconductors are the bottlenecks, timing of recovery, and the outlook for production going into the next fiscal year.

Answer 3:

Gupta: Semiconductor supplies are improving, but not perfect. There are a couple of chips which are the bottleneck. It's because of these 2 chips that we had to downsize our volume assumption to 3.4 million units.

We have developed second sources for many other chips. For these 2 chips, we are also starting the second source development, but it will take some time.

In FY23, not only these 2 chips, the shortage will continue, but will be better than this year.

Question 4:

Your operating profit margin is improving to close to 5% level. How sustainable is this profitability level?

Answer 4:

Ma: Q3 was a good result for us. We have hit the Nissan NEXT objective of 5% OP margin on a proportionate basis. The volume was less than expected, but we allocated semiconductors on the higher end to have a richer mix. Q4 operating profit is expected to be around 70 billion yen. This is because FX is expected to have a negative impact by about 40 billion yen in Q4 compared to Q3, which can be partially offset by volume increase. The rest is due to raw materials costs, as well as seasonality of the costs. However, we expect automotive OP and FCF to be positive.

For the next fiscal year, we are striving for 5% OP margin on a proportionate basis, as we said in our Nissan NEXT plan.

Question 5:

How is the competitive landscape in China, and how are you going to increase the volume and market share? How is the performance of Sylphy?

Answer 5:

Gupta: China sales are low due to multiple factors. X-Trail with 3-cylinder engine remains a challenge, but X-Trail in China is the only product which has not picked up, among the 14 models launched over the past 21 months. We had to postpone the launch of X-Trail e-POWER due to the pandemic. As for Ariya, we still cannot assess the real performance as it was launched during the pandemic. We should have a better picture of our China performance at the full-year financial announcement.

Regarding Sylphy, the competitors are bringing down the transaction price of sedans, but we only reduced by 1%, which is much less than the market. We also see the conquest from the sedans to NEVs, but from January, the Chinese government has stopped NEV incentives. That's why we need to wait for this quarter to see the real performance of the market and Nissan.

Question 6:

Please explain about your dividend policy. How are you going to balance the investments (including investment in Ampere) and dividend?

Answer 6:

Ma: First we want to make sure that we are making solid recovery. We are already demonstrating that in Q3, but we need to demonstrate it for the full year to alleviate any concerns. After 3 years of negative auto FCF, it will be positive for this fiscal year.

We are maintaining our position to gradually increase the dividend to a 30% payout level. We will do it very carefully balancing all factors, including the recent announcement regarding the Alliance. Regarding Ampere investment, if it were to happen, it will be at the IPO timing, which Renault has indicated to be Q4 of CY23. We have demonstrated 2-3 quarters of good performance, and we will continue that in the next fiscal year. As we generate auto FCF, I think the concern will be less.

Regarding the possible share buyback from Renault, it is very unlikely that Renault would sell Nissan shares in the immediate short term as the Nissan share price is currently low. I'm not worried about the immediate future in terms of cash need.

Question 7:

Mix is improving from the previous year particularly in the US, but you said that going forward, Kicks, Versa and Sentra would increase. How would model mix affect your results for FY23?

Answer 7:

Ma: When the supply is limited, we do everything to maximize the higher end products. As we get more supply of semiconductors, we can produce more of the lower end or smaller products, and the mix impact will reverse towards normalization.

Our market share declined in the US due to the shortage of semiconductors for smaller cars and sedans, which have become popular recently because of inflation. As the supply comes back and consumer behavior turns towards more affordable cars, I think the mix will decline for the industry.

Question 8:

How do you see the raw materials and logistics costs for FY23?

Answer 8:

Ma: Costs for precious metals are coming down, but steel/aluminum has come down slightly but remains high. As we enter into next fiscal year, we are now negotiating to try to lock in a good price.

For logistics, we have difficulties in terms of shipping capacity, rail, truck, etc. For the short-term, logistics bottlenecks will continue.