NISSAN
MOTOR CORPORATION

Analyst Session for FY23 Q2 Financial Results
Q&A

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

Speakers :
Makoto Uchida Representative Executive Officer, President & CEO
Stephen Ma Executive Officer, CFO

Questions and Answers

Question 1:
Regarding the results of the second quarter, please evaluate including temporary factors.

Answer 1:
Ma:
The main factor for the improvement in profit is that the consolidated sales volume for the second quarter increased from 560,000 units in the previous year to 683,000 units. Operating profit increased sharply from 91.7 billion yen to 208.1 billion yen. Forex had a positive impact of 11 billion yen. The US remained strong leading to approximately 26 billion yen, offset by emerging market currencies such as Argentine peso, Turkish lira, Mexican peso. The decrease in raw material prices contributed positively to the tune of 19.7 billion yen. The increase in retail sales volume accounted for the majority of the profit, offsetting the increase in costs due to inflation and cost of production. If production and sales volume continue to increase in the future, profit will also increase, establishing a solid management foundation.

Question 2:
Regarding the 576 billion yen increase in sales expenses and price revision for the second quarter, could you please provide more details on regions where the increase has been particularly successful?

Answer 2:
Ma:
We have been focusing on the quality of sales for the past few years. We have implemented pricing improvement not only in major markets but also in minor markets such as South America and Southeast Asia. However, the majority of the “others” category is due to price revisions

reflecting the cost increase in hyperinflation in emerging markets such as Turkey and Argentina. In the past, we prioritized increasing the number of units rather than the price, but now we prioritize profits from pricing improvement even if it means we sell a little bit less volume.

Question 3:
What are the factors contributing to the increase or decrease in upward revisions? Also, the full-year sales volume forecast 3.7 million units remain unchanged, this means in H2, you have a plan to increase the volume compared to H1. What level of certainty is there regarding this plan?"

Answer 3:
Uchida:
Regarding the sales volume forecast, although there were logistical issues and restrictions due to the supply chain in the first half, we expect to improve in the second half and significantly recover the sales volume. We are maintaining the full-year target of 3.7 million units, and the situation in the first half by region is that there is a high backorder for Serena and X-Trail in Japan, and we are planning to recover in the second half. In the US market, we were unable to sell as expected due to logistical impacts. In the second half, we will reduce transportation issues, establish an increased production in Mexico, expand the supply of compact cars with increasing demand, and aim for an increase in sales volume. In the Chinese market, the sales volume of new cars has been struggling, but it is expected to increase from October, and we are maintaining a forecast of 800,000 units. However, the global situation remains uncertain, we would like to monitor the circumstances carefully. And at need, we would like to disclose how we project the volume.
Ma:
The European market is gradually declining, and there is a slight decline in backorders for many manufacturers, so it is a situation that needs attention. However, our company maintains a healthy level of backorders. In the SUV segment, which is the core of the European market, we have introduced four new models, Juke, X-Trail e-POWER, Qashqai e-POWER, and Ariya, in the past year and refreshed our lineup. There is a very high demand for new models, and we want to increase production and expand sales. In addition, we have upwardly revised the full-year forecast from 550 billion yen to 620 billion yen. Of the 70 billion yen increase, 40 billion yen is due to the forex impact caused by changing the exchange rate assumption to 1 dollar/140 yen. We also expect raw material prices to continue to contribute to increased profits and have added 10 billion yen for this. The remaining 20 billion yen is an increase in profits based on sales performance. If the dollar-yen rate in the second half is higher than the assumed 140 yen, further upside is possible.

Question 4:
Regarding the US market, what factors contributed to the negative mix in the second quarter? Additionally, could you please provide your perspective on the US market for the second half of this year and the next fiscal year, especially considering the highly uncertain US macroeconomic conditions?

Answer 4:

Uchida:

I anticipate that overall demand in the US market will continue to rise. However, there is a shift in demand towards affordable cars, leading to changes in the model mix and a slight decline in profitability. Fortunately, our company excels in the production of affordable cars, such as Versa and Sentra, and we are currently establishing an enhanced production system in Mexico. Our plan is to expand the supply chain and strengthen our market presence further. As for the subsequent IRA response, it is currently under urgent discussion within the company. We are also aiming to present strategies on how to enhance market competitiveness as electrification advances in our medium-term management plan.

Question 5:

In the latter half, the Chinese market continues to face intensified competition, and the effects of new models have yet to become evident. Could you provide guidance on earnings or any related insights in this scenario?

Answer 5:

Ma:

We are reducing fixed costs and reviewing our system to respond to the fierce price competition in China. The average actual selling price of the entire Chinese market has dropped by nearly 20% in the past two years, so we cannot expect a short-term increase in profits. We are reviewing our system and rapidly introducing new energy vehicles in order to compete in the Chinese market.

Question 6:

Regarding the extension of the announcement timeline for the medium-term management plan, which part of the future business and products requires time? Additionally, concerning the business restructuring plan in China, could you provide the timeline for when its effects will start to be realized?

Answer 6:

Uchida:

In the Chinese market, 67 models have been introduced in the past three months, and as many as 22 new models were introduced in October, resulting in lower selling prices than expected. Our strategy is to secure profits and sales volumes while maintaining a balance without significantly lowering the selling prices. As we approach the year-end, there is a potential for increased intensity in price competition, and the situation is such that sales incentives may not have much effect due to the rise in new car introductions. In regions where the demand for ICE is strong, we will continue to maintain presence and aim for growth with new models. In addition, we are considering exports from China and strengthening measures against fixed costs to compensate for the low operating rate of production plants. In order to maintain the current level and achieve growth in the Chinese market, we plan to introduce new models in full scale from the second half of 2024. Although it may take time for growth, we intend to rebuild the business in China and establish a strategic presence. In the medium-term management plan, we will explain regional strategies, such as electrification strategies in regions with fragmented markets, such as North America with IRA regulations, and strategies to increase market share in the Japanese market. The medium-term management plan is an intermediate point towards the 2030 vision, and we will also clearly indicate our strategies and vision beyond that.

Question 7:
Previously, it was stated that a net cash reserve of approximately 1 trillion yen would be secured for the purpose of rebalancing. Considering the current upward revision and other factors, has there been any change in the existing cash holding policy? Please provide details on the specific dividend policy.

Answer 7:
Ma:
I cannot promise the timing, but I want to gradually return the dividend payout ratio to 30%. If profits increase significantly, we will gradually increase the dividend per share and ultimately aim for a dividend payout ratio of 30%. In order to respond to the shifting market demand, we will reserve a certain amount of cash for growth investments. In the second half of the year, potential cash outflows are expected due to investments in Ampere, and for share buybacks if Renault sells Nissan shares as part of the rebalancing process. Therefore, we intentionally secured a high position of net cash in the first half of the year. We consider a reasonable level of net cash to be around 1 trillion yen.

Question 8:
Currently, the profitability of EVs is low, investments are increasing, and sales competition in the United States is also becoming intense. Is it possible to significantly increase profits in the next 3-4 years? Also, which area do you see as having the greatest opportunity?

Answer 8:
Uchida:
We are discussing cost optimization internally as the profitability of electrification and electric vehicles has not reached a satisfactory level. Chinese companies and Tesla are increasing their cost competitiveness beyond expectations, and selling prices are also declining. In this situation, we are planning to gradually reduce costs through X-in-1 and cobalt-free batteries, which are the goals of Ambition 2030. However, if we cannot significantly reduce costs further, it is a challenging situation to achieve a level of operating profit of 600 billion yen plus alpha. On the other hand, we can maintain the current level because we can secure profitability through improvements in sales quality.

Regarding investments in electrification, we want to show the direction of building a sustainable profit structure by considering various options, such as utilizing the alliance, in the medium-term management plan.

Question 9:
In the mid-term management plan Nissan NEXT, one of the goals was to reduce global production capacity to 5.4 million units. What is the progress on that? Also, what are the candidate destinations for exporting 100,000 units from China?

Answer 9:
Uchida:
Regarding the optimization of overall capacity, we are currently addressing various aspects. However, considering the sales forecast for this fiscal year is 3.7 million units, we acknowledge that the 5.4 million units set by Nissan NEXT still represents overcapacity. While China has the largest production capacity, the Chinese market poses challenges, and there are regions with insufficient supply to other areas. Therefore, we have decided to export from China. Concerning the optimization of Chinese production capacity and fixed costs, we plan to discuss and consider this with our partners. Additionally, we maintain an operating rate of approximately 85% in regions other than China. We are contemplating presenting specific policies for optimizing production capacity in the mid-term management plan.

Question 10:
When S&P's credit rating was downgraded to BB+, it indicated the intention to recover the top priority rating. On the other hand, I think there will be a need for cash in the future, such as Nissan shares held by Renault and investment in Ampere. Please tell us the current policy.

Answer 10:
Ma:
The profit rate for the second quarter is high, and net cash is abundant. The business performance and balance sheet have improved and are stable. We have the willingness to recover the rating through constructive dialogue with S&P. Additionally, increasing retail unit sales and improving performance are important.

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