NISSAN
MOTOR CORPORATION

Analyst Session for FY23 Q3 Financial Results

Q&A

Date/Time : February 8, 2023, 18 :30-19 :30

Speakers :

Stephen Ma Executive Officer, CFO

Questions and Answers

Question 1:
Could you elaborate on the North American market situation and share specific challenges faced in Q3? In Q4, are you confident in meeting the sales target?

Answer 1:
Ma:
Firstly, we are highly confident about our Q4 sales in the US. However, we encountered several issues in Q3, with the main challenge being the insufficient logistics capacity from Mexico through the US market. In addition to trucks and rail freight, we have now secured ocean freight from Mexico to the Atlantic, the US, and Canada, ensuring even more deliveries. This has been largely resolved for Q4.

Due to logistical issues, we also experienced a rise in inventories at the end of Q3, peaking in January and already showing a downward trend. Additionally, in Q3, we faced increased incentives due to more aggressive moves by our competitors. We had to adjust our incentive strategy multiple times within the quarter to stay competitive. Furthermore, we observed a shift in the US market towards hybrids, especially in the segment where Rogue experienced a significant increase in hybrid sales. Consequently, we now have a slightly higher number of inventories of model year 2023 Rogues than initially planned.

To prevent aged inventory issues in Q4, we promptly adjusted incentives on the model year 2023 Rogue. This strategic enhancement, primarily supporting interest rates for both retail and leases, seems to have effectively addressed the challenges and contributed to the temporary incentive increase observed in Q3.

The new model year 2024 Rogue is already in dealerships. I'm confident about the Q4 volume because it includes the new model year 2024 Rogue, featuring a refreshed exterior and a better connectivity solution with Google built in. Additionally, we have a new model year 2024 Sentra.

Logistics and deliveries from Mexico have been improved, and our January dealer stock and company stock are very healthy. Furthermore, in Q4, we have many contracted sales with a robust commercial fleet and rental orders that were signed early in the year, scheduled for delivery in Q4.

Question 2:
Regarding personnel expenses in North America, in 2024, competitors have announced significant cost increases. It appears that the percentage increase in personnel expenditure in Mexico is higher for some competitors than in the United States. How is the situation at Nissan?
Answer 2:
Ma:
We ensure that we maintain a competitive compensation package for our valued employees in North America. In response to the situation in the US, we have announced a 10% wage increase. In Mexico, we likely have a similar policy of maintaining competitiveness. We will ensure that we align with the market to take care of our employees. We are reasonably competitive, not only in the US and Mexico but globally as well. Inflation is high worldwide, including in Japan. It's reasonable to anticipate inflationary pressure on labor costs across the board.

Question 3:
Can you update us on the current situation in China? Given the intense competition, what strategies do you plan to implement for your future operations in the Chinese market?

Answer 3:
Ma:
The market situation in China is highly competitive, with a somewhat frenzied price war. In the first three quarters, we were careful not to blindly follow the trend. Rather than entering fiercely contested markets, we shifted our focus to the ICE market. This approach proved more successful in minor cities markets where the Nissan brand is highly valued, as opposed to major cities like Shanghai and Beijing, where the competition in new energy vehicles is intense.

To maintain competitiveness, we targeted customers who purchase new cars just before Chinese New Year, emphasizing the brand dependability, fuel efficiency, safety, and features of Nissan vehicles. We observed a continued escalation in price reductions, especially from newcomers attempting to gain market share through discounts. Nissan aims to stay relatively competitive by enhancing offerings appropriately, avoiding excessive discounts, and targeting the right audience.

Furthermore, we accelerated our plans for new energy vehicles, with the first vehicle set to launch later this calendar year. For the long term, we are developing a more detailed and comprehensive offering for the Chinese market, a topic that CEO Uchida will delve into when unveiling the midterm plan.

Question 4:

Regarding sales in Japan and Europe, the Q4 sales target appears to be quite ambitious. Can you share your level of confidence in achieving this target? Additionally, what is your perception or assessment of the current situation in these markets?

Answer 4:

Ma:

In the European market, we anticipate an increase of almost 40,000 units from Q3 to Q4. Our goal is to achieve a 20,000-unit increment by ensuring competitiveness in pricing, incentives, and through intensified marketing efforts. Of the remaining 20,000 units, half, or 10,000 units, is expected in UK sales due to the license plate change in March. Typically, we experience a surge in the UK market during this period. The remaining 10,000 units will be driven by the supply of electric vehicles, including the LEAF and the Ariya, as we received deliveries that were slightly delayed in Q3. In terms of Europe, we foresee no challenges in achieving growth in Q4 compared to Q3.

In Japan, we are introducing the new model year 2024 Note and DAYZ, and based on the January sales performance, they are selling well. The new Serena e-POWER is gaining popularity, for which we have increased the supply. Additionally, we have improved the supply of Ariya and Sakura. As a result, Japan is well-positioned for a very successful Q4.

Question 5:

In Q3 operating profit, can you disclose any one-off items? Although the full-year operating profit remains steady, adjustments to forex assumptions and volume have been made. What positive contributions can be highlighted? Additionally, in the operating profit variance, could you specify the changes, and do you have any numerical values to share?

Answer 5:

Ma:

In Q3, our operating profit was below expectations, primarily due to two factors. Firstly, the larger-than-anticipated inventory of model year 2023 led us to offer additional incentives for selling down the stock, resulting in a one-off cost of around JPY30 billion, not expected to recur in Q4. Secondly, Monozukuri costs increased due to inflation, and discussions with suppliers in December addressed a gross inflationary cost increase of JPY 20 billion for the full nine months.

Below operating profit, significant items include a JPY54 billion impairment for India, part of our restructuring collaboration with Renault.

Looking ahead to Q4, negative factors from Q3 won't be repeated, and incentives will decrease as all model year 2024 vehicles are now in dealerships. No impairments are anticipated in Q4, and the deferred tax ability for undistributed China retained earnings was already addressed in Q3. We maintain our full-year guidance at JPY620 billion, factoring in a Q4 yen rate of JPY145.

While retail adjustments decreased by almost 150,000 units, wholesale adjustments only dropped by 75,000, mitigating the financial impact. Our focus on cost control, coupled with FX considerations, is expected to offset the volume drop compared to previous guidance. Despite inflation and other costs, careful monitoring ensures we avoid a significant escalation in fixed costs.

Question 6:
Regarding the operating profit, how will it be impacted in the next fiscal year? Will there be any reduction from the previous year, and do you have any numbers to share with us?

Answer 6:
Ma:
For the upcoming year, we are currently in the process of developing the plan. Following the Nissan NEXT strategy, where we emphasize reasonable profitability, we intend to continue this focus for the next few years. We are not aiming to blindly pursue volume or market share; instead, we seek a well-balanced approach between volume and profitability. Recognizing that the market has changed over the past couple of years, we plan to unveil the details for the next fiscal year in the May announcement, which will include the full-year results and the outlook for the following year. Please anticipate more comprehensive information to be shared with you at that time.

Question 7:
The free cash flow in the automotive sector turned negative in Q3. Could you elaborate on the reasons behind this? Looking ahead to Q4 or the full year, what are the expectations for the automotive free cash flow, and are there any concerns or potential challenges?

Answer 7:
Ma:
In Q3, the automotive free cash flow turned negative due to two main issues: logistics challenges and the production strategy influenced by historical seasonality. The logistics challenge impacted the flow of inventory, and our production tends to be higher in Q3 to ensure we have sufficient stock for the increased sales typically experienced in Q4. Historically, Q3 free cash flow is lower or sometimes negative due to this phenomenon, and there are no other issues within the free cash flow apart from the higher inventory levels.

Regarding year-end projections, the inventory already reached its peak in December and has since been utilized for sales in February and March.

Question 8:
In December, you buyback 5% of Renault-sold shares. What prompted this? How do you plan to address the remaining 23% held by Renault, also is there any policy regarding the cancellation of the shares?

Answer 8:

Ma:

In December, we repurchased approximately 5% of our shares and promptly canceled those shares to enhance shareholder returns. Any share sell-down from the French trust is solely at Renault's discretion, and they will notify us. If they decide to sell, we are willing to buy, as demonstrated by our recent actions. Our goal is to improve shareholder return over the mid and long term, either through dividends, share buybacks, or through improved performance, which would increase our share price. We don't have a set policy to cancel out all the shares we buy back. The action will depend on the amount of Renault shares they want to sell, but we have the funding and cash available to proceed.

Question 9:

How does the canceled Ampere IPO impact your investment strategy?

Answer 9:

Ma:

Regarding the Ampere IPO, given the current challenging conditions, we understand and respect their decision not to proceed. Our relationship with Renault has improved and it's getting better. All our collaboration projects with them are progressing as planned. We are very much looking forward to the compact EV, which concept version of it showed in London. It will be developed by Ampere for us according to our specs. Therefore, we are very much looking forward to it. I cannot tell you the timing of it, but it will come soon.

Ampere is a good investment opportunity as it helps us complement our strategy in Europe. We already have a good lineup, X-Trail, Qashqai, Juke, LEAF, and we will have refreshed models just like we showed recently with the new e-POWER X-Trail, Qashqai, and hybrid Juke. But going forward, there are more things that the Ampere might be developing for EVs and it's a good way to collaborate to help us meet the very fast electrification trend in Europe. We are working with them and there are more potential projects in the pipeline. As our position has always been, if it makes sense, it complements and enhances our strategy we are interested. Our position has not changed. If there are some decisions or further progress, we will let you know.

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