

Analyst session for fiscal year 2020 financial results

Q&A

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[Speakers]

Makoto Uchida	Director, Representative Executive Officer, President, and CEO
Ashwani Gupta	Director, Representative Executive Officer, COO/CPO
Stephen Ma	Executive Officer, CFO

Question & Answer

Question 1:

For FY2021, the semiconductor issue and commodity price hike will be a business risk. What is the quantity of the risk?

Answer 1:

Uchida: Looking at the immediate situation regarding the semiconductor shortage, the impact will be pretty big. We believe that the impact is about 500,000 units in terms of production in the first half. We are assuming to recover at least half of this in the second half.

At the same time, we are watching the commodity price hike. Assuming all these business risks, including the measures to mitigate the impact, we would like to achieve breakeven at this point of time.

But as I said earlier, based on the results of Q1 in FY2021, we would like to provide an update for this outlook.

Question 2:

Recently, an increasing number of companies are announcing sales volume objectives for battery EVs on a global basis. What is your position?

Along with this, there are opinions that the in-house production of batteries may lead to additional value for the company. Would you explain your thoughts about in-house/outsourcing battery production?

Answer 2:

Uchida: Regarding our electrification strategy, we announced that in the early 2030s, we will electrify all new car offerings in the key markets. Under Nissan NEXT, we said that we plan to sell 1 million units of electrified vehicles in FY2023. On the other hand, I think market acceptance and the speed of electrification will vary by region. We need strategies to meet the needs of each market. We have 2 pillars of electrification, battery EV and e-POWER. Our plan is to deliver the right products at the right time.

It is up to the customers to assess the value of our products, considering the total cost of ownership, as well as regulations to achieve carbon neutrality in each country. This should translate as a consequence to our sales volume.

As part of our initiatives to reduce the total cost of ownership, we will enhance cost competitiveness. In considering whether or not to produce in-house or outsource batteries, supplier strategy and localization are important. We are holding comprehensive discussions about supplier strategy for key components of electrification from a mid-term perspective, based on the possibility of further acceleration of electrification.

At the same time, we are discussing what kind of technology should be internalized and in which area we should collaborate with suppliers.

In addition, in order to enhance cost competitiveness, we need to localize production in key markets. Today, we are not yet ready to give you all the specifics. We will utilize the Alliance and work with authorities around the world.

We are going to benefit from the economies of scale from the Alliance through commonization. At the same time, we are preparing a roadmap for technology innovation, cobalt-less and all-solid-state batteries.

Lastly, I believe that our strength lies in our comprehensive initiatives throughout the life cycle, beyond the conventional framework of electrification and leveraging 10 years of experience and knowledge

Question 3:

Business risks perhaps include a JPY150 billion negative impact. On a full year basis, 250,000 car units will be affected by the semiconductor shortage on a net basis. If that is the case, the negative impact from business risks could be larger than JPY150 billion. Does this number include the profit recovery plan?

Answer 3:

Uchida: This number includes the impact from measures to mitigate risks, which we can see today.

Gupta: For the semiconductor shortage, we are managing the financial impact as much as possible by transferring semiconductors from the less profitable models to the higher profitable models. Maybe when we come back in July, we will be able to give you a precise number that this is what we did, this is what was the shortage of semiconductors and this is what was the financial impact.

Question 4:

In the middle of March, according to a media interview, Mr. Gupta said that Nissan may be able to achieve the profit target one year ahead of the plan. Is this correct? If that is the case, what are the factors

contributing to the recovery to achieve a 5% OP margin on a China JV proportionate consolidation basis in the next fiscal year (ending March 2023)?

Answer 4:

Uchida: As you may recall, we already achieved the FY2021 OP margin target in Q3 of FY2020.

Also, in Q1 of FY2020, we were largely affected by COVID-19. However, our performance is improving quarter by quarter, and at this pace, our 5% target in FY2023 is in sight.

We are focusing on financial discipline and shifting our corporate culture from excessive volume to value and quality. With these objectives, the key for Nissan NEXT is to build a strong foundation for sustainable growth. On this point, I think we are ahead of the plan, despite the headwind of COVID-19.

Gupta: Under Nissan NEXT, we said that the second half of FY2021 will be automotive free cash flow positive. Looking at our results of FY2020, Q2, Q3, Q4, automotive free cash flow was positive. That means that we pulled ahead by one year.

On the fixed cost reduction, the initial assumption was a JPY300 billion reduction in 2 years compared with FY2018. However, we achieved more than JPY350 billion in fixed cost reduction.

On the quality of sales, we said that in FY2021, the United States will come back to its retail sales. But when you look at Q4 of FY2020 in the United States, we significantly reduced our incentives and increased the net revenue per unit but also increased the retail market share.

All this evidence proves that we are one year ahead in terms of our progress under Nissan NEXT.

Going to the details in the interview, we never talked about the profitability. We talked about the actions and the enablers which are moving one year ahead.

Question 5:

Please elaborate on the net loss for this fiscal year. Did you include the gain on sale of Daimler shares in the outlook?

Answer 5:

Ma: From an operating profit of JPY0 down to a net loss of JPY60 million, the biggest number in here is tax, which is roughly JPY90 billion. Even though we are breakeven globally, we are profitable in a few countries, with profitable sales finance companies, so we have to pay taxes.

The gain from the sale of Daimler shares is included in this number.

We assume that profit in companies under the equity method will not be as bad as they were in FY2020.

Finally, we issued bonds last year and the full year interest expense is roughly JPY40 billion a year. Those are big numbers for you to understand the movement from an OP of JPY0 to a net loss of JPY60 billion.

Question 6:

Capital expenditure for FY2021 seems quite high and is close to the level of capital expenditure when Nissan increased production capacity. Of course, I understand that you are increasing the investments for the new car launches but are you trying to invest at a high level in other areas as well?

Answer 6:

Uchida: In order to address CASE, we need a certain level of capital investment. We are forecasting an appropriate amount of investment.

Ma: Capital expenditure, as a percentage of revenue, is very high compared to historical levels but in terms of amount, it's almost the same as last year.

You're right, in the past, a lot of it was used for capacity investments but the nature of investment for this fiscal year is very different than the past. It is much less on capacity and much more on products and technology. As we mentioned before, under Nissan NEXT, we made sure to invest appropriately in the technologies that will make us competitive for the future.

Question 7:

I understand that you need to pay taxes for profitable companies such as sales finance companies but is it not possible to reduce tax costs using tax consolidation in countries such as the US?

Answer 7:

Ma: We obviously combine tax entities wherever we can to optimize tax burdens. As you can see in the geographical detail, the US is now profitable as a country of operations. Even if we combine everything, we still have to pay taxes.

Question 8:

Regarding the business risk of JPY150 billion on the minus side, is it correct to assume that there is a negative impact of approximately JPY250 billion from raw materials and semiconductors (approximately JPY100 billion for raw material costs assuming costs increase by roughly 30K or 40K JPY per unit and approximately JPY150 billion from semiconductors assuming a production shortage of 250,000 units), offset by the positive impact of measures such as the improvement in pricing and model mix? Also, you said you will have more visibility on the semiconductor supply in July. Why do you think you can provide a forecast with a higher degree of certainty or accuracy at the end of Q1? Is it because the situation is expected to improve after Q1?

Answer 8:

Gupta: I don't think we will see a significant recovery in Q1 because there are 2 bottlenecks. One is the general capacity issue, which we saw globally. Depending on the supplier, they decided to increase the capacity in November and December. Finally, we will start seeing the full return on capacity in June, July and August. The second bottleneck was the unfortunate event at the Naka plant of Renesas Electronics, where it took 2 months

to fully recover. Definitely, there's a pipeline from Tier 2 to Tier 1 and finally, to our car manufacturing, so with that fact, I don't think we will have a big recovery.

But on the other side, what for sure we are doing is to transfer the semiconductors from the less profitable models to the highly profitable core models in the core markets to keep the business continuity.

When we come back in July, what we will have is how much we lost in April, May and June but also how much visibility we have to recover in the second half. I think that is what we are expecting when we come back in July to explain to you.

Question 9:

Could you elaborate on automotive free cash flow generation in FY2021 and the possibility to resume the dividend?

Answer 9:

Uchida: At the time of the Nissan NEXT announcement, we said that we are going to secure positive automotive free cash flow in the second half of FY2021. Under the current circumstances surrounding the automotive industry, considering the semiconductor supply shortage and our outlook for this fiscal year, it is very difficult to project the dividend payout. However, we would like to resume the dividend payout as soon as possible, by making the automotive free cash flow positive and recovering to a sufficient level of net cash.

After the first quarter of last year, we are steadily securing positive automotive free cash flow and it is important to maintain this momentum.

We have a significant impact from the semiconductor shortage in the short-term but looking at the operational performance, we can say that we are doing what we have promised, earlier than we had expected. Our intention to resume the dividend as soon as possible remains unchanged.

Question 10:

Regarding the semiconductor shortage, an impact of 500,000 units in production seems tremendous. When you say this is still uncertain, does it mean that this impact is already visible in the first half and there is a risk of a further reduction? Or does it mean you don't have the visibility on how much you can recover in the second half? Is the impact of 500,000 units based on a conservative assumption?

Answer 10:

Uchida: We assume an impact of 500,000 units from the semiconductor shortage. We are assessing how much we can recover in the second half, as well as allocation by model.

Our new products such as Rogue and Note are equipped with many semiconductors. The magnitude of impact is large due to the "double negative impact" of supply shortage, new product launch timing, and the fact that we have more models using more semiconductors.

Gupta: What we are trying to do is the best estimate to run our operations. Before we used to run our car flow, which is a production plan, quarterly, and now we run it monthly, and sometimes weekly, we are adjusting our production. The figure of 500,000 units is based on the experience we had in Q4 of FY2020, January, February and March, what was the visibility, how we recovered, and how we landed.

Question 11:

Please explain the trend of profitability in China from a structural perspective. I believe profit margin was at its peak around FY2018 and since then, the profitability remains high but is flat to a slight decrease, despite an increase in sales volume. I would like to understand the background for such trend and also know what is deteriorating out of Nissan, Venucia and LCV.

You are forecasting that the sales volume will not increase much in FY2021. Is there any structural change that you have to make?

Answer 11:

Uchida: The China market has been growing YoY up to 2018. In the past, it was a market that you can increase unit sales in if you have new products. However, that is changing with the shrinking market and increasing number of players.

In the market where transaction prices continues to fall, it does not mean that our performance has declined. We have been able to sustain our performance.

If you look at our results for FY2020, our market share increased in Q4 and our incentive/unit is decreasing. While average transaction prices for the market decreased by approximately 5%, we were able to keep this decrease at a minimal level.

China remains an important market. We believe that we can continue to make a decent profit. However, the pace of electrification is accelerating. If you look at the Shanghai Motor Show, we shouldn't just sit and wait. We will continue to drive the electrification strategy in China, which we explained earlier.

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