

## **Analyst Session for FY22 H1 Financial Results**

### **Q&A**

**Date/Time :** November 9, 2022, 18 :15-19 :15

**Speakers :**

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

### **Questions and Answers**

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**Question 1:**

What is the background for revising downward the sales assumption for China?

**Answer 1:**

**Gupta:** There are COVID-19 outbreak and lockdowns in many prefectures. 29% of dealers were closed in October and the situation is continuing in November. This is the reason why we adjusted our volume assumption for China.

X-Trail sales are struggling compared to what we planned, but we are compensating the shortfall with the increase in other models (Altima, Sylphy, Qashqai, Kicks etc.)

**Question 2:**

How does Renault's establishment of ICE joint venture with Geely ("Horse") impact Nissan's ICE operation?

**Answer 2:**

**Uchida:** There are high demands for ICE in Nissan's market portfolio, so we need to continue selling ICE. There are Nissan's internal R&D projects and we also collaborate with companies other than Renault. We will continue R&D activities that would benefit us in the future.

We still have limited information on Horse. We will continue to consider how we can collaborate.

**Gupta:** We are reducing ICE engines from 49 to 19 by 2030. These 19 will be mainly in US, China and Japan. That is why Horse has a minimum exposure to Nissan's future ICE strategy.

**Question 3:**

Would Nissan's decision on whether or not to invest in Renault's EV company ("Ampere") have any impact on the operation of the Alliance on electrification?

**Answer 3:**

**Uchida:** Nothing has been decided, but there will be no big change on the operation of the Alliance. We are currently discussing how we can collaborate considering the future of our European operation and enhance Nissan's value. We are looking at the benefits for Nissan and if the investment in Ampere would result in business opportunities. There are media reports that Nissan is requesting an equal shareholding relationship in return for investment in Ampere, but that is not the case.

**Question 4:**

Were there any good practices that Nissan would like to adopt from Renault's capital market day announcement?

**Answer 4:**

**Uchida:** In developing the business plan based on Nissan Ambition 2030, we are having internal discussions on how to achieve growth. There will be limitations to continuing past practices, and we need to consider how we can collaborate with partners for a true transformation.

Renault is making an attempt to implement a major transformation. Renault's dynamism is what Nissan can learn.

**Question 5:**

Regarding FY22 outlook revision, please elaborate on what has improved and what has not compared to the previous outlook. Is it on track to achieve Nissan NEXT objective (5% OP margin in FY23 on China JV proportionate consolidation basis)?

**Answer 5:**

**Uchida:** Our OP margin on the China JV proportionate consolidation basis was 4% for FY22 H1, thanks to the improvement in net revenue/unit. However, we still need to challenge on increasing the volume. We will continue to prioritize value over volume, but I am confident that volume will increase naturally as long as we offer products for which the customers accept the value. Therefore, I believe that we can achieve the Nissan NEXT objective.

**Ma:** Raw material prices are increasing, not just for Nissan but for other companies as well. Increase in raw materials and logistics costs is expected to have a negative impact of 327 billion yen YoY. We will have a similar level of impact from raw materials in H1 and H2. The impact from logistics cost would increase in H2 from H1 due to sea freight contracts.

There is a positive impact from FX, but also improvement in performance is expected to have a positive impact of 330 billion yen YoY and cover the negative impact of raw material and logistics costs. The improvement in performance versus the previous outlook includes a 115 billion negative impact from volume, and a 145 billion positive impact from performance excluding volume, most of which can be explained by pricing and incentives.

**Question 6:**

Q2 automotive free cash flow was strong. Can you sustain this in coming quarters? Please also share your view on optimal level of automotive net cash.

**Answer 6:**

**Uchida:** Automotive free cash flow was good for Q2, but still negative for H1. We would like to sustain current good momentum and work towards further improvement despite the challenges in volume.

What is important is to enhance automotive profit. It turned positive in Q2, and our intention is to sustain this on an ongoing basis. This should lead to the achievement of Nissan NEXT objective.

**Ma:** We have more than 1 trillion yen of automotive net cash. One of the key strengths of Nissan is that we have a strong balance sheet. As CFO, I would like to protect the net cash position.

**Question 7:**

How is the status of semiconductor supply shortage – is the situation improving?

**Answer 7:**

**Gupta:** I said 3 months ago that the situation is improving but the issue would continue even in 2023, and that is exactly what is happening. The effect of development of second sources are starting to ramp up and we expect to continue to see the effect in H2.

H1 sales volume was 1.56 million units, and based on our revised forecast of 3.7 million units, H2 would be 2.2 million units. We still have strong customer demand around the world.

**Question 8:**

You adjusted your production capacity to 5.4 million units as part of the Nissan NEXT transformation, but now there are uncertainties on global economy. Do you still plan to keep 5.4 million units

capacity? Please elaborate on your view on the gap between the production capacity and actual production volume.

**Answer 8:**

**Gupta:** We set a capacity objective of 5.4 million units based on a TIV assumption of 90 million units and market share of 6%. However, the TIV is around 80 million units, and 6% market share means 4.8 million units. With all the demand around the world, 4.8 million units is doable.

We would like to keep 5.4 million units of capacity as this is the minimum capacity we should have to achieve sustainable growth after market normalization. We should have 6-7% market share in the US, 10-12% in China, 10-12% in Japan and 2-3% in Europe.

**Question 9:**

What is the reason for continuation of high profit for sales finance business? Is this sustainable in H2?

**Answer 9:**

**Kochhar:** Sales finance profit is decreasing from the previous year as we had one-time gains in FY21 such as release of provisions. However, excluding previous year's one-time gains, the sales finance business profitability continues to be very good, with H1 return on assets of 3.8%. We continue to focus on good customers, and our loss ratio continues to be lower than in the past.

We expect a similar level of profitability in H2, but due to the decrease in assets, absolute profit would be lower.

**Question 10:**

Please explain about your view on automotive free cash flow for FY22 H2. Do you expect automotive free cash flow to continue to improve with the increase in production volume, and do you expect automotive net cash to further increase?

**Answer 10:**

**Ma:** In H2, with the increase in volume, we expect further improvement in working capital, and we have a good chance of making H2 automotive free cash flow positive.

**Question 11:**

Please share your view on which markets demand remains strong and which markets demand is weak.

**Answer 11:**

**Gupta:** Automotive market is the last to get hit by recession due to the pent-up demand. In the US, even if the TIV is slowing down, our performance is better because of strong acceptance of our product. Our incentives are close to industry average after a long time. In Europe, we have a very long waiting time for Qashqai, Qashqai e-POWER etc. We have increased our market share in Japan. Only place where we are facing a challenge is in China, mainly because of the external environment. I think that these market trends and our product performance would continue in H2 and in FY23.

**Question 12:**

I am concerned about expanding the Nissan Intelligent Factory to other regions as the production volume at Tochigi plant remains low. What are the challenges and what are your countermeasures?

**Answer 12:**

**Gupta:** Tochigi plant was modernized during the pandemic with imported equipment, and we had challenges in ramping up with no service engineers entering into Japan. The semiconductor shortage also impacted the production volume at Tochigi. However, now we are ramping up and we are producing between 160 and 180 units a day. We started exporting Ariya to Europe and sold 1,500 units last month, and the first shipment to the US went on November 1<sup>st</sup>.

We will be putting similar production lines at Sunderland, UK and Canton, US. We are realigning our mid to long-term industrial strategy to maximize the benefit for profitable growth.