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Analyst Session for FY2023 Q1 Financial Results
Q&A

Date/Time： July 26, 2023, 17:30-18 :30

Speakers：

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

Questions and Answers

Question 1:

How do you assess the Q1 results in terms of profit compared to the plan built three months ago? Were there any one-off factors affecting the profit and loss, particularly the negative 56.6 billion yen categorized as others of others in the Operating Profit Analysis (P.12)?

Answer 1:

Ma:

The Q1 profit assessment indicates that the performance was slightly ahead of plan, attributed to good overall performance and a weaker yen than expected. However, there were one-off factors: two recall campaigns at the end of Q1, costing about 43 billion yen, resulting in a significant negative impact of 56.6 billion yen under the "others-others" category. This issue is primarily related to the timing of the recall campaigns, as they are typically spread throughout the year and incur a total of 70 billion yen to 80 billion yen annually.

Question 2:

What profit expectations should we have for China in this fiscal term? Could you elaborate on this?
In Q1, it is likely to be close to breakeven or possibly showing a small surplus. In Q2, despite the easing of price wars, the volume does not show a significant increase. If the performance hits rock bottom this fiscal year, how much do you expect it to recover next year and beyond?

Answer 2:

Ma:

In Q1, China showed a positive profit but not significantly high. The full fiscal year's profit in China is expected to be positive but considerably lower than the previous year. We acknowledge that this year, and possibly next year, will be challenging as we reset and update our strategy and go-to-market approach in China. Our focus is on controlling costs, increasing volume, and delivering products with earning capabilities. However, the China market remains challenging, with intense price competition affecting profitability. We hope to recover profit compared to Q1, but we must closely monitor market conditions. While we expect the Total Industry Volume (TIV) to gradually recover, the pricing trend remains uncertain. The majority of the China market still consists of ICE vehicles, where we have a strong presence. We aim to maintain a certain level of profit volume despite the tough market conditions.

Uchida:
I believe that China's market may not return to being a high-profit market as it was in the past. The ending of subsidies for new energy vehicles in March 2023 contributed to poor performance in Q1 and Q2, resulting in price competition and delayed purchases. However, with extended emission regulations and ongoing subsidies, the need for rapid price reductions has eased, and we anticipate gradual sales recovery in the second half of the year. Additionally, there was the significant underperformance of the 3-cylinder engine version of the X-Trail. On the positive side, we still have the strong-selling Sylphy, and we plan to introduce the new Qashqai to improve profitability and recover the sales volume to a certain extent.

Despite our efforts, the market remains challenging. We need to keep a close eye on the market and come up with the future plan for the next 18 months. And we have to take measures for substantive improvements.

Question 3:
Will there be any temporary expenses such as impairment of factories, penalties to dealers and suppliers, due to this decrease in sales volume? Are there any opportunities to redirect the parts that were originally intended for use in China to other regions to increase production? Or will the decline in production in China directly impact the global production volume?

Answer 3:
Uchida:
Of course, amid the decline in sales volume in China, we are considering utilizing parts and components in other facilities. We are exploring plans to compensate for the decrease in sales in China by increasing production in other regions, but we are currently in discussions about the feasibility of this approach, including which specific parts, in which regions, and under what setup it would be realistically possible to ramp up production.

Ma:
If the volumes remain low or decrease further, there will be a risk of losses. Currently, we are making every effort to mitigate these risks and find ways to avoid them. However, if the volume falls below a certain level, we will need to consider possible impairments and other related issues.
To recover volume, the key is to offer products that align with the preferences of Chinese consumers. That's why we are focusing on introducing and accelerating the development of new models specifically tailored for the Chinese market. Currently, we are deeply engaged in discussions about which new models and additional alternatives we can bring to the Chinese market using local assets.

Question 4:
North America's profitability is close to 8% this quarter, which is quite high. What factors contributed to this? Also, what are your short-term and mid- to long-term analyses for this fiscal year and beyond?

While the current market appears favorable, there are concerns about declining profit margins due to looser supply and demand, increasing incentives, and the transition to EVs. What is your company's perception of the external environment, and what are your future strategies?

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Answer 4:
Uchida:
The profitability of the North American market was a significant challenge during the implementation of the transformation plan Nissan NEXT. However, it is now considered a market with highly effective operations. The models with strong earning potential have been well-received by customers, leading to an expectation of increasing profits in the near future.

Considering the overall demand, it is believed that sales volume can be increased on a quarterly basis. Driven partly by the gradual improvement in semiconductor supply, although specific component risks still exist. The company is considering plans for future production increases in response to market demand. Additionally, the yen depreciation provides a further benefit.

Regarding sales incentives, progress within the budget for Q1 has been made, and profitability is expected to be maintained in the near term.

However, looking ahead to next year and the year after, it is understood that failing to adapt to the U.S. electrification policy could lead to a challenging profit structure. Therefore, it is crucial to develop a solid mid-term management strategy to address this concern effectively.

Question 5:
The outlook has been revised upward for non-China region markets. Could you elaborate on this?

Answer 5:
Ma:
The outlook for regions outside of China has been revised upward, with good confidence in reaching higher volume in the main markets like Japan, North America, and Europe. However, in some other regions, downward revisions were made due to slowdowns in Southeast Asian economies and logistics challenges in smaller markets like Australia. Despite the challenges, supply is recovering, and logistics issues are expected to improve in the coming quarters. Overall, the company remains positive about the volume in regions outside of China for the rest of the year.

Question 6:
Is the increase in inventory due to the impact of logistics?

Answer 6:
Uchida:
Yes, the demand for our products remains steady; however, the substantial increase in inventory is primarily a result of supply disruptions caused by logistics issues rather than a decrease in sales volume.

Question 7:
The impact of raw material prices has slightly turned positive in the first quarter. Is this in line with your

company's expectations, or have there been instances where prices increased or decreased more than anticipated? Could you please provide some insights on this matter?

Answer 7:

Ma:

Raw material impact is slightly positive versus the previous year, which aligns with our expectations. The prices of lithium rose more than anticipated, while the prices of our most frequently used materials, such as steel and aluminum, have remained stable. However, prices for other metals have decreased. We anticipate that raw material prices will continue to remain stable at this level until the end of the fiscal year.

Question 8:

Do you have any plans to pass on the cost increase from raw material prices and inflation to vehicle prices? While there have been continuous price increases globally since last year, it seems that there may be a delay in implementing price increases in Japan. Could you please provide information on the extent of vehicle price increases in Japan?

Answer 8:

Ma:

Until last year, we implemented pricing actions in all regions except for Japan. However, these actions were not solely for passing on costs. Instead, our goal was to have customers recognize the value in our products, technology, and features. As a result, the pricing actions made in overseas markets have been effective in offsetting the cost increases so far.

In Japan, the market has historically been less receptive to significant price increases. However, given the significant inflationary environment last year, we took the opportunity to increase prices, especially with the launch of new vehicles. These sizable price adjustments have carried forward into this year and have contributed to a net positive impact of 41 billion yen in selling expenses and pricing year over year.

Question 9

The content of the final definitive agreement announced today seems to have undergone minimal changes from the framework announced in February. Were there any specific events that caused delays in reaching this definitive agreement?

Regarding the 600-million-euro investment in Ampere, it is understood that it will not have a significant impact on cash flow and other financial aspects. Could you provide further elaboration on this matter?

Answer 9

Uchida:

The reason for the delay in the Renault agreement was the extensive and in-depth discussions between Nissan and Renault about their future growth and investments, including the contribution to Ampere. These discussions required thorough consideration and preparation, resulting in more time being taken than initially expected. However, around mid-June, both parties recognized the urgency of progressing to the next steps swiftly. Consequently, they decided to proceed with the first step agreement, leading to the current stage of the alliance.

Regarding the maximum investment of 600 million euros, Nissan aims to participate as a strategic partner, which led to the determination of this amount.

Question 10:
The impact of higher interest rates has led to a rise in demand for affordable compact cars in the U.S., with these cars being manufactured in Mexico for the American market. What is the profitability of vehicles manufactured in Mexico?

Answer 10:
Ma:
In Mexico, we manufacture models such as Sentra, Versa, Kicks, and more. The production of these units is being increased as we observe a shift in demand from American consumers towards smaller-sized cars due to the impact of high interest rates. Nissan has a strong presence in this segment, and our production capabilities in Mexico are very strong. We are doing everything we can now to ramp up and maximize our production in Mexico. And of course, we are profitable, both locally in Mexico and also in the US on those vehicles sold. Right now, there are three plans in Mexico, and one of them is already at full capacity to help meet the demand of the US market.

Question 11:
Could you elaborate on your approach to the profitability and sales volume of EVs? I saw the announcement that the price of the Ariya will be reduced for sales in China. Are you considering the possibility of selling EVs at lower profit margins, even if they may not be immediately profitable, as a part of your strategy for future growth, particularly given the current favorable performance?

Answer 11:
Uchida:
In China, we believe that the design and Nissan's technology aspects of the Ariya have been highly appreciated by our customers. However, the pricing range has been a constraint. To increase the penetration in the Chinese market, we decided to launch the Ariya 500 in July at a slightly lower profit margin, offering it at a price that pushes the boundaries of profitability. This strategic approach aims to effectively raise our market presence in China.