NISSAN
MOTOR CORPORATION

Analyst Session for FY23 Q4 Financial Results
Q&A

Date/Time : May 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 supplier support, what is the regional breakdown of 60 billion yen booked in fiscal year 2023? Additionally, for fiscal year 2024, should we understand that there will be an additional negative impact of 100 billion yen due to support for labor costs and inflation, separate from the supplier support?

Answer 1:
Uchida:
As of the end of March, we have accounted for 60 billion yen in supplier-related costs. This includes our investment support for suppliers and inflation cost support for suppliers, with the ratio being roughly 50-50. As today, suppliers are facing inflation. Last year, we also addressed this inflation issue, and from a global perspective, we believe it is essential to continue supporting our suppliers.

Ma:
At this point, we cannot provide specific numbers by region. Although this support covers our suppliers globally, it will impact all regions. As a matter of practice, we allow suppliers to pass on inflation costs to us every year. For other cost relief measures, we had lower sales volume in the last few years and each supplier had specific conditions depending on how much they invested to support us. We evaluate each items on a case-by-case basis.

Question 2:
Could you explain the background behind the anticipated increase of 30 billion yen in sales performance selling expenses and pricing for the operating profit variance for fiscal year 2024?

Answer 2:
Ma: The 30 billion yen includes selling expense and pricing. With the other question, we had to spend more incentives on selling old model year 2023 Rogues last year but we won't have to do that going forward. This means we'll require fewer incentives. As a result, the pricing of the new model will be enhanced.

Question 3:
Could you please explain the gap between the sales plan of 3.7 million units and the production plan of 3.5 million units for fiscal year 2024? Additionally, concerning the factors affecting operating profit, with a negative impact of 10 billion yen due to volume and mix, does this mean that the wholesales volume will not increase in fiscal year 2024?

Answer 3:
Ma: This question is more about retail versus production. The inventory level rose in the last quarter. This increase was due to a surplus of Rogue inventory in the US. The sell-down of that has progressed well and it is down to a minimal level now. With a normalized supply chain, we aim to manage the inventory more efficiently and maintain it at lower level.

Regarding the volume and mix, volume is positive because of increased sales volume. The issue is the mix as we are trying to sell more EVs in the US, and they are not as profitable than ICE. Of course, selling more Ariya and LEAFs will help us in CAFE and other compliance requirements. Net-net, it's beneficial. However, on the step chart, it will show up as negative mix.

Question 4:
While an increase in shipment volumes will have a positive impact, an increase in the sales volume of BEVs will have a negative impact on the composition. Regarding the expansion of BEV sales in the United States, are we looking to expand the sales of the LEAF?

Answer 4:
Ma: We've got more supply of batteries now, so we're able to sell more.

And in the US market, the CAFE requirements are escalating year by year. By enriching our mix slightly, it helps us overall. Net-net, from a business case point of view, it makes sense. And it goes with our initiative to improve the electrification mix in our portfolio in the US.

Question 5:
The sales plan for North America in fiscal year 2024 shows an increase of approximately 170,000 units. With growth expected in the affordable segments such as the Kicks, Versa, and Sentra, could you provide the breakdown of these numbers for the United States, Mexico, and Canada? It seems that the situation will be challenging for segments other than the affordable segment in the United States. Maintaining the quality of sales will be crucial here, but the aggressive sales plan appears to prioritize quantity over quality. Could you comment on this?

Answer 5:

Uchida:

In North America, we faced challenges in the supply chain, including logistics issues, in fiscal year 2023, which prevented us from adequately supplying vehicles in the affordable segments. However, with these issues now resolved, we are able to increase our supply. On the other hand, in Q4 of fiscal year 2023, we increased sales incentives to sell the old model year Rogues.

Starting in April, we are strategically increasing the number of units for affordable segment models. In Mexico, our market share in March was at a high level, and we aim to continue leveraging this sales strength to increase our share. We anticipate overall market growth of about 4%, with our retail sales volume expected to grow by double digits. In North America, our retail sales volume is projected to increase by 13.3%, and we expect similar growth figures in both the United States and Mexico. The models driving this volume increase are the Sentra, Versa, Kicks, Pathfinder, and Frontier. However, our sales strategy will not focus on heavily increasing sales incentives but rather on ensuring that customers understand the value of Nissan.

Ma:

Nissan aims to build a balanced portfolio. And then the electrification speed is determined based on the customer taste and trend. Right now, in the US market, pure EV sales are slowing down, but hybrids are picking up. We are obviously reconfiguring our plan in the Arc where we stated we will introduce e-POWER in the US. Also, as mentioned by our partner, Mitsubishi Motors, we are going to do a plug-in hybrid together for the North American market.

The first year of the Arc, fiscal year 2024 is a very critical for us because we are launching four new very good SUVs: the Kicks, the QX80, the Armada, and the Murano. These are all very high-demand and profitable ICE vehicles.

There are mass market moving towards more affordable segment because the interest rate and inflation are still high in the U.S. Although, customers with higher household income are still buying higher-end vehicles. For example, QX80, which was just launched in New York and will go on sale in summer, will probably be the most expensive vehicle that Nissan has ever offered other than GTR, and it targets the premium customers. We are expecting good results with high hopes for these four cars contributing to the performance in fiscal years 2024 and 2025.

Question 6:

Regarding North America, external data shows that incentives have returned to historically high levels, and I believe the increase is greater than that of other Japanese competitors. To have a positive outlook on North America's performance moving forward, could you explain whether the new models are strongly associated with the brand or if they have superior product strength?

Answer 6:

Uchida:

In terms of unit sales, unfortunately, we have not yet returned to the levels seen before the pandemic. Furthermore, compared to our competitors, I believe our recovery in unit sales is weaker.

In fiscal year 2023 in the United States, we faced more challenges on the supply side compared to other companies. Rectifying those issues is also reflected in our inventory balance. Going forward, we aim to increase our presence and achieve our target volumes by focusing on the affordable segment (Kicks, Versa, Sentra), maintaining sales quality.

Regarding incentives, while it's true that we currently lack HEV models in the US, when considering only the ICE segment, I believe our incentives are at a lower level than the industry average. We see this as maintaining sales at a competitive level while ensuring quality.

In terms of enhancing brand power through our product lineup, we believe that there is high demand in the U.S. for both models targeting affluent customers and affordable models. Models like the QX80 and Kicks have received very positive feedback from customers, so we will use these models to enhance our brand power.

Question 7:

Regarding the free cash flow, please explain the background behind the strong figures achieved in 2023. Additionally, for the outlook of fiscal year 2024, Nissan announced that it repurchased a portion of the 7% stake which Renault sold. Could you elaborate on how we should consider the relationship between free cash flow and the buyback from Renault?

Answer 7:
Ma: Regarding the fiscal year 2023 cash flow, a lot of it comes from cash from operations. Also, we manage our working capital, where we got some benefit this year. Those are the two main reasons.

We do not give the free cash flow guidance for the fiscal year 2024. Although, given that we already announced a dividend forecast for next year, free cash will be positive and healthy.

In March, Renault offered to sell 7% of Nissan’s shares. We bought back 2.5% and the remaining 4.5% will follow the prescribed mechanism we agreed in the arrangement with them. At this point, while no decision has been finalized, Renault needs to determine its stance on the remaining 4.5% within 180 days from the offer.

Right now, Nissan’s CAPEX has gone up a lot. We want to save our cash for the investment needs that were announced in the Arc. We will have a lot of investment needs for next year, which is the reason behind the big increase in the 620 billion yen forecast for next year. This roughly accounts for the 135 billion yen increase over this year. To accommodate this, we have reduced some investments for other areas to prioritize upcoming vehicle investments

Question8:
Looking at just the China operations, I believe the free cash flow has been negative for both fiscal years 2022 and 2023. For fiscal year 2024, we anticipate relatively stable sales numbers in China, but could you provide insight into the forecast for free cash flow?

Answer 8:
Ma: First of all, our China joint venture, DFL, is free cash flow positive. If you are looking at the difference between the equity based free cash flow and the proportionate based free cash flow, there's a slight accounting adjustment. We used to get dividends from China. This would help the free cash flow on the equity base. We are getting less dividends, which is why you are seeing this kind of difference. But rest assured, the cash flow of our China operation is still positive. We are just not able to get as much in dividends anymore. Fiscal years 2024 and 2025 will be sort of a transition period, we get the five new Nissan-branded new energy vehicle and also the other new energy vehicle of Venucia brand. Then we'll have to wait. It's like a transitional period until we regain growth mode again.

Question 9:
Regarding the CAPEX and R&D expenses for fiscal year 2024, I sense a slight increase from the 7 to 8% of revenue outlined in the Arc. Could you explain the background behind the increased upfront investment and whether it aligns with the Arc? Additionally, could you provide the forecast for R&D expenses for fiscal year 2024?

Answer 9:
Ma: In terms of ratio including R&D and CAPEX, we gave a reference guide of 7% to 8% of revenue over long term period. As you noticed, R&D plus CAPEX as a percentage of net revenue is like 12% in Q4. Given that we finalized the Arc, we decided to pull ahead some of the R&D and CAPEX into this year. Luckily with a good free cash flow, we are able to fund it, and we have now accelerated some of the investments for the future. You would have to wait for Q1 announcement for more information regarding R&D expense for fiscal year 2024. It is certainly an increase on a year on year basis .

Question 10:
The operating profit margin for the fiscal year 2023 Q4, excluding the return from litigation-related matters, is approximately 1.5%. However, the full year forecast for fiscal year 2024 is 4.4%. Could you please explain the reasons behind the significant recovery in the operating profit margin for fiscal year 2024?

Answer 10:
Ma: You are right, there are multiple factors at play here for Q4. One, we have no more seasonality where Q4 typically is a lower margin quarter for us as a lot of costs and expenses are happening towards the year-end. Typically, our Q4 profit margin is like 1 to 2 percentage points lower than full year average.

Secondly, we had two unusual items in this Q4. One is the cost relief provision and the other one is the reversal of the litigation provision. The reversal of the litigation provision is very simple, just 38.8 billion yen, which will be reversed above OP. And below OP in non-operating, we also reversed some of the potential FX losses of 15.5 billion yen that we had to book given the Yen was depreciating in the last couple of years.

Unfortunately, I cannot give you the exact number for the one-time supplier cost, but I think you can sort of guesstimate from the Q4 step chart. You can see that inflation cost is 49.1 billion yen negative. And others in the Monozukuri cost is 62 billion yen negative. A large portion of that is for those kinds of costs. Q4, without this litigation provision and supplier kind of cost relief, should be somewhere between 3% to 4% OP margin, which is fairly healthy.

Question 11:
What is the positioning of fiscal year 2024, being the first year of Arc? I assume that the improvement in profit margin will become visible in the final year, but I'd like to know if this perception is correct and if there are any special factors in fiscal year 2024.

Answer 11:
Uchida: When I talked about the Arc, I talked about the upcoming new models. Out of the 30 new models, we have 15 under the Nissan brand. Highly profitable models will come out in 2025 or 2026 as you indicated. In 2024, we would like to boost the basic volume first with the existing lineup. That's the positioning of fiscal year 2024.

Question 12:

You announced the investment in Kasai Kogyo today. Is this an exceptional case or will this kind of case appear with other suppliers as well?

Answer 12:
Uchida:
Our approach remains unchanged, focusing on communicating with all stakeholders and providing necessary support to each company. The decision to invest in Kasai Kogyo was driven by the realization that their financial risks could pose significant challenges to our supply chain.

Given the highly challenging business environment, we consider it essential to strengthen collaboration with our suppliers. For fiscal year 2024, we have factored in the necessary support costs for these suppliers as part of our business plan, considering them as inflationary impacts.

Question 13:
Regarding the S&P credit rating downgrade that occurred one year ago, it was explained that improving the rating is a high priority. Can we have an update on the current status and any impact on our business?

Answer 13:

Ma: For the S&P rating, given how well we performed the last couple of years and how much we progress, we were hoping that S&P could alter their assessment of our rating and outlook. With the positive results we have achieved for the full year and Q4, we plan to engage with them again to explore opportunities to improve the rating.

While being classified as non-investment grade by S&P has impacted our cost of borrowing, we successfully obtained an investment grade rating from Fitch.

In Nissan NEXT, we were able to achieve an operating profit margin of 4.5%, surpassing the target of 4.2% on an equity basis. Under Arc, we aim to steadily improve the operating profit margin.

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