

Analyst Session for FY24 Financial Results

Q&A

Date/Time : May 13, 2025, 19:15-20:15

Speakers :

Ivan Espinosa, Representative Executive Officer, President & CEO

Jeremie Papin, Executive Officer, CFO

Stephen MA, Chairperson, MC-China

Questions and Answers

Question 1:

I believe the effects of the cost-cutting measures from the restructuring plan will be most apparent in FY2027. What is the target operating profit margin for the full year of FY2027?

Answer1:

Espinosa

We aim to achieve a total cost reduction of JPY 500 billion by the end of FY2026, which includes JPY 250 billion in fixed costs and JPY 250 billion in variable costs compared to the FY2024 results. Some of these measures will start to show effects during FY2025 and FY2026. For example, we are working on a variable cost reform program, expecting a benefit of JPY 75 billion in FY2026. We have assigned 3,000 engineers to the TdC reduction activities. The effects of the restructuring measures for fixed costs are also expected to gradually materialize before FY2027. Our goal is to achieve positive operating profit and free cash flow in the automotive business by FY2026, and we aim to exceed the levels of FY2026 in FY2027.

Question 2:

What assumptions were made to estimate the tariff impact of JPY 450 billion for the full year of FY2025?

Answer 2:

Papin

Approximately 45% of vehicles sold in the U.S. are imported from Mexico and Japan. Roughly two-thirds of the JPY 450 billion in tariffs apply to completed vehicles, while the remaining one-third applies to parts shipped to the U.S. Since tariffs do not apply to the USMCA portion, we have based our full-year outlook on what is currently in the market as of April and May.

Question 3:

You announced a reduction in production capacity to a level of 2.5 million to 3 million units. Which regions and products will you focus on moving forward?

Answer 3:

Espinosa

We plan to reduce production capacity to 2.5 million units by FY2027 and maintain flexibility of 500,000 units to accommodate increasing demand. Additionally, we will utilize partner factories to produce approximately 400,000 units as needed.

We will define core segments and core markets, allocating development resources and our own resources accordingly. Nissan specializes in B and C segments, and we will export not only to local markets but also to other regions. Furthermore, we will leverage collaborations with partners such as Mitsubishi, Dongfeng, and Renault. For instance, we are already collaborating with Renault in Europe on A and B segments, and we plan to start exports from India in the future. In China, we will also facilitate exports from Chinese manufacturers. These initiatives will allow us to cover all markets without solely relying on our own capabilities. We also aim to find partners in the Japanese and U.S. markets, where we have a strong presence. Additionally, we are considering collaborations in advanced technologies such as electrification and autonomous driving, aiming for a lighter balance sheet by offloading older technologies.

Question 4:

Is the idea to reduce fixed costs while maintaining current regional and product exposure at a production capacity of 2.5 to 3 million units?

Answer 4:

Espinosa

We will also reduce the number of platforms and lower development workload and burden, closely reviewing the scale of our portfolio to align with our current production capacity. Initially, we will reduce the number of global platforms from 13 to 9 by FY2032, ultimately reaching 7 (a 46% reduction). Additionally, we have established a steering committee to focus on reducing variable and fixed costs, as well as exploring opportunities for revenue growth. These actions aim to preserve our scale and profitability.

Question 5:

The net cash for FY2024 is approximately JPY 1.5 trillion. How were you able to maintain the same level of net cash as FY2023 despite negative free cash flow?

Answer 5:

Papin

We were able to maintain net cash due to dividends from the automotive business to the internal sales finance company.

Question 6:

Even with a cost reduction of JPY 500 billion, if the tariff impact is JPY 450 billion, it seems that you can only achieve a profit of JPY 50 billion, making it far from reaching the level of JPY 300 billion in operating profit for positive free cash flow. Could you elaborate on this?

Answer 6:

Espinosa

To achieve positive operating profit in the automotive business, we need to improve revenue by several hundred billion yen. However, we believe that the JPY 500 billion in cost reductions will help bridge this gap and mitigate other adverse impacts on our profitability.

With respect to restructuring costs, we have recognized certain expenses in FY2024. Currently, we project that an additional JPY 60 billion in restructuring costs will be incurred in FY2025. Most of these costs are expected to be cash outflows in FY2025. We intend to finance the restructuring costs through strategic asset sales.

Question 7:

Is the target of achieving profitability in the automotive business a discussion without considering the tariff impact of JPY 450 billion? Or is the plan to achieve JPY 300 billion in operating profit even including the tariff impact?

Answer 7:

Papin

The target for positive operating profit in FY2026 does not include the impact of tariffs.

Question 8:

You announced a reduction of 1 million units in production capacity and additional headcount reductions. Can you provide a breakdown by region and the associated costs?

Answer 8:

Papin

We are advancing production capacity and headcount reductions globally, but we cannot provide specific regional details at this time. Regarding costs, we have recorded some special losses in FY2024. Currently, we estimate that an additional JPY 60 billion may be recorded in FY2025. The cash out for restructuring costs in FY2024 and FY2025 is expected to occur in FY2025, and we are considering asset sales to cover these costs.

Question 9:

You mentioned that you aim for positive operating profit in the automotive business excluding the tariff impact in FY2026. What will you do if the tariff impact continues until FY2026?

Answer 9:

Espinosa

If tariffs continue until FY2026, we will need to find measures to overcome them. We anticipate that about 30% of the gross impact of JPY 450 billion will be mitigated by the first quarter. We will continue to explore such mitigation measures, including discussions with suppliers and parts manufacturers. In the midterm, we will seek partners to collaborate and utilize existing production capacity to overcome these challenges.

Question 10:

The forecast for operating losses in the first quarter of FY2025, including tariff impacts, is JPY 200 billion, and the free cash flow for the automotive business is projected to be negative JPY 550 billion. What level of tariff impact and one-time costs are included in this forecast?

Answer 10:

Papin

Free cash flow will be particularly impacted in the first quarter. Specifically, seasonal effects will lead to significant payments to suppliers, affecting working capital. Additionally, there will be initial research and development costs and upfront investments related to models that will be released in FY2025 and FY2026. These factors have been factored into the first quarter's free cash flow outlook.

Question 11:

Will the powertrain strategy, including e-POWER and EVs, be reconsidered?

Answer 11:

Espinosa

In the short term, we will expand hybrid technology, particularly in the U.S., with a focus on rapid deployment. We plan to launch the plug-in hybrid Rogue in the second half of FY2025 and the e-POWER Rogue in FY2026. From a long-term perspective, we anticipate a decline in hybrid and ICE sales, but the key is when this shift will occur. Therefore, we are reviewing how to approach hybrids and ICE in our strategic review. This is how we are considering our powertrain strategy. While the market is currently sluggish, we believe that EVs and new energy vehicles will expand in the long term, and we must be prepared for that.

Question 12:

The full-year plan for FY2025 forecasts an 18% decrease in sales volume in China. Can you explain the competitive environment and profitability in the Chinese market?

Answer 12:

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First, we have introduced new energy vehicles this year, including the N7, which was showcased at the Shanghai Motor Show. We will also launch a plug-in hybrid pickup truck, the Frontier Pro. This marks the beginning of our portfolio reform. Our current lineup is quite outdated, primarily consisting of gasoline vehicles, so we plan to refresh it. This year is a transitional period as we introduce new models, which will take time to expand our sales volume. Therefore, we are cautiously monitoring sales volume for FY2025 and aim to recover it in FY2026 and beyond.

Regarding profitability, we have maintained our breakeven level over the past 2-3 years, thanks to the excellent work of our local teams in reducing fixed and other costs. We aim to maintain breakeven in FY2025 as well, but our priority is to recover sales volume. As you may have seen at the Shanghai Motor Show, we plan to introduce three new energy vehicles this year, with a total of ten models expected by the summer of FY2027.

Question 13:

Given the low sales volume of Infiniti brand vehicles, what is the rationale for continuing production and sales?

Answer 13:

Espinosa

We definitely want to continue with the Infiniti brand. First, Infiniti products are developed by Nissan, and the development efficiency is very good. The low sales volume is not due to brand strength, but rather because we have spread our resources too thin across many areas, which has prevented us from giving Infiniti the attention it deserves. Moving forward, we plan to focus our resources and create synergies between Nissan and Infiniti, delivering high-value vehicles while controlling investment. For example, the QX80 is a prime example; it is our most profitable model, and we can take an efficient approach by leveraging Nissan's assets. This is why we continue to invest in Infiniti.

Question 14:

You mentioned forming a team to explore top-line growth as part of the restructuring. What areas has Nissan previously overlooked, or where do you see potential for top-line growth?

Answer 14:

Espinosa

This team is considering how to appropriately control incentives for current models while covering more markets. We have focused too much on larger markets, overlooking other opportunities for increasing sales volume in those markets. We are also reviewing our portfolio, not only the model portfolio but also how we set options. We anticipate significant improvements, particularly in large markets like the U.S.

End