

Managing Through the Global Crisis



Exercising Financial Restraint for Future Profitability

When the global economic crisis hit and the markets collapsed, we were quick to take actions to preserve cash. This is the reason our performance in 2008 was better than expected. And it is why Nissan is one of the few car manufacturers to expect an improvement between fiscal 2008 and fiscal 2009.

One of my primary tasks as CFO is to emphasize the idea and importance of free cash flow at Nissan. As an automaker, we know about producing and selling cars, and about cash and operating profit—the latter has been our priority for the last decade. However, in a period when the company is expected to incur losses, positive free cash flow is not an intuitive notion, so we continuously have to explain why it is both feasible and necessary.

Cash flow naturally comes from the sale of products and reducing costs, but you can also discipline your balance sheet—manage inventory, control receivables from your customers and payables to your suppliers and sell some non-core assets. Nissan's balance sheet is strong, but we can make it stronger.

To ensure that Nissan is generating cash, we are setting up key performance indicators on free cash flow, both as a whole and for individual components such as capital expenditures, sale of assets, receivables, payables and inventory. We have teams responsible for each. Our free cash flow committee is monitoring their activities monthly to ensure that we are meeting our objectives and correcting discrepancies.

For fiscal 2008, free cash flow for the automotive business was negative by ¥251.7 billion. Free cash flow for the year deteriorated primarily because of decreased profitability and the negative impact on accounts payable resulting from the decrease in production for inventory control. However, our free cash flow in the fourth quarter of fiscal 2008 was a positive ¥363.5 billion. This was due primarily to the measures we introduced in the third quarter of fiscal 2008, such as cutting fixed costs and tightening the management of working capital, which led to a ¥354.5 billion reduction in inventory. Our ability to generate free cash in the fourth quarter led to halving our automotive net debt position to ¥387.9 billion from ¥783.5 billion at the end of the third quarter in fiscal 2008.



There are some positive signs for fiscal 2009, such as better liquidity and a little stabilization in consumer demand but we are not out of the dark yet. Unemployment is still rising, oil prices are higher, interest rates could go up, and almost halfway through the calendar year we have not seen much of an auto market recovery.

Governments worldwide have realized the depth of this crisis, so they are creating incentives to promote demand, including tax and cash incentives for consumers switching to more fuel-efficient cars and funding for the development of emission-free vehicles. In addition, they are setting up mechanisms to facilitate borrowing. It's easier to borrow than it was at the end of 2008. Europe is developing direct loans for the industry and loans to develop projects. The various authorities in Japan are also proposing different funding possibilities for the auto industry. The U.S. is offering special government-supported funding to promote sales financing, such as Term Asset-Backed Securities Loan Facility (TALF).

We used to borrow globally at a small spread over interbank rates, or even below, and suddenly spreads surged in fiscal 2008. In Europe, for example, spreads for three-year money went up from less than 1 percent to 6-7 percent in the last quarter of fiscal 2008. And unless you were ready to pay such premiums, you could not issue bonds. Fortunately we had alternative sources of funding. Spreads are now coming down and markets are progressively improving. But my focus is to keep everyone cash-conscious. We know the market is volatile, and we take nothing for granted. We are diversifying our funding base, extending our maturities and building up our cash position. We have important confirmed lines of credit we can draw on, if necessary. This includes nearly \$3.8 billion of unused term facilities, and nearly \$3 billion in short-term backup lines. We keep all of these in reserve as a collective safety net.

In fiscal 2009, we want to achieve a positive free cash flow. We continue to put pressure on fixed costs and will maintain the painful but necessary reduction on wages until there is a recovery. To save on capital

expenditures, which are now lower than depreciation, we have postponed the development of certain new models, and decreased the number of new launches from 60 to 48 during fiscal 2008 to 2012. We decided, however, to keep a significant level of R&D expenses for new technologies and new products that are necessary to match future consumer demand, such as the electric vehicles we intend to mass-produce and our new global entry cars, which will be manufactured in 5 different countries.

In addition, controlled levels of accounts payable, which should improve from the increase in production at the end of the year, as well as some asset sales will help us achieve our free cash flow target.

Nissan's core financial policy has long included delivering a healthy dividend to shareholders. Unfortunately, the crisis forced us to cut the dividend and focus on preserving cash and maintaining operating flexibility. Achieving positive free cash flow is key improving our performance and revisiting our dividend policy.

Finally, I want to stress the importance of the Alliance with Renault, which is a major asset for our company. We recently set up a common dedicated team to make sure that every department of both companies—from Powertrains to Platforms to Manufacturing and from Research and Advanced Engineering to Logistics to IS/IT and to Purchasing—systematically extract all possible synergies. This new “turbo process” applied to the Alliance should give us a unique competitive advantage to increase our capacity to invest in future growth while improving our free cash flow.

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