NISSAN
MOTOR CORPORATION

Analyst session for fiscal year 2021 Q1 financial results

Q&A

Date/Time July 28, 2021 / 18:45-19:45

Speakers

Makoto Uchida	Director, Representative Executive Officer, President, and CEO
Ashwani Gupta	Director, Representative Executive Officer, COO/CPO
Stephen Ma	Executive Officer, CFO

Question & Answer

Question 1:

Please elaborate on the impact of the semiconductor supply shortage going forward.

Please explain the reasons why the operating profit level for Q2 onwards is lower than Q1.

Answer 1:

Uchida: There are 3 reasons for the strong Q1 results. 1) We were able to minimize the impact of the semiconductor shortage by selling inventory we had at the beginning of the fiscal year, and by strategically allocating semiconductors to highly profitable models.

2) An improvement of 16% in net revenue per unit versus FY19, as a result of the shift from quantity to quality of sales. This number has been improving every quarter.

3) The favorable market environment, which resulted in an improvement in sales finance profit and the positive impact from increased used car prices particularly in the US, as well as the positive impact from forex.

We will continue our efforts to minimize the impact of the semiconductor supply shortage, but we expect a larger negative impact on sales volume in Q2 due to low inventory.

Regarding sales finance profit and the impact from increased used car prices in the US, I wouldn't say they are all one-offs, but we will not enjoy the same level of positive impact for Q2 onwards.

Furthermore, we were able to minimize the impact of the raw material price hike in Q1, but we expect a larger negative impact for Q2 onwards.

Due to the COVID-19 pandemic, we are seeing concerns of semiconductor shipments from ASEAN countries, so we shouldn't be overly optimistic with the full year guidance. That is why we are forecasting JPY150 billion in operating profit.

Ma: Our Q1 result is roughly JPY 75 billion. We were able to secure a healthy level of profit in Q1 as we mitigated the semiconductor supply shortage impact by selling from our existing inventory and by strategically allocating semiconductors to the profitable regions and models.

Q1 profit of JPY 75 billion includes some one-time items such as the improvement in sales finance profit and positive impact of increased used car prices. Excluding these one-time items, about half is what we can say is sustainable going forward.

As for raw materials, we are forecasting a negative impact of JPY 185 billion for the full year, of which only JPY 14 billion hit our P&L in Q1, which means the bulk of the negative impact will hit us later in the year.

We are hoping that we can absorb most of the negative impact of the raw material price hike with the recovery in sales volume as well as improvement in quality of sales, including the effects of new model launches.

Question 2:

There was a media report that Nissan is expecting a higher production recovery in H2 compared to the initial assumption, but should we think that the assumption has not changed from the initial outlook?

Answer 2:

Gupta: We are running our plants based on weekly production plans, as we need to be flexible in the current uncertain environment.

We are fully geared up in terms of capacity/manpower for a production recovery in H2. How much we can produce is subject to availability of semiconductors.

Our confidence on the recovery of the semiconductor shortage is based on the fact that we were able to recover 50% of the shortage in FY20 Q4. There were 2 or 3 bottlenecks including the fire incident at Renesas Electronics' Naka Plant. The Naka Plant has fully recovered and restarted production, but there are new risks such as the supply from smaller Tier N suppliers, and the impact of the pandemic in South East Asia.

For Q2 onwards, we need to continue to keep a strict discipline between supply and demand, and adapt flexibly in our production, while paying attention to the sales trend.

Question 3:

2% operating margin on a China JV proportionate basis for this fiscal year is now coming into sight. Based on Q1 results, do you feel that the conviction for a 5% operating margin on a China JV proportionate basis in FY23 is getting higher?

Answer 3:

Uchida: We are making quarterly progress on strengthening our financial base and improving net revenue per unit towards growth, as set in Nissan NEXT.

Our operating margin reached 3.8% on a China JV equity basis and 4.5% on a China JV proportionate basis in Q1, but we are seeing a large negative impact from the raw material price hike and semiconductor supply shortage.

Based on these factors, we are forecasting an operating margin of 1.5% on a China JV equity basis and over 2% on a China JV proportionate basis for the full year. As we continue to launch new models, net revenue per unit will improve, and we will be able to earn steady profit. The Nissan NEXT target of a 5% operating margin on a China JV proportionate is becoming visible, and we are pursuing as one team to achieve this target and to further grow the company.

Question 4:

Renault explained their electrification strategy in June. They said that they would like to achieve margin parity between battery EV and ICE, by around 2025. On the other hand, Nissan said in the past that Nissan wants to achieve margin parity of battery EV and ICE by around 2030. Is there any chance to achieve this earlier than the plan? Please elaborate on the profitability of battery EV.

Answer 4:

Uchida:
We need to leverage mass merit of the Alliance in order to achieve cost parity between electrified vehicles and ICE. We are working with speed to reduce the cost of electrified vehicles, with initiatives such as unification of specification of batteries, optimization of R&D expenses among Alliance partners, etc.

I cannot comment on the timing, but considering the current move towards electrification, in certain regions we need to achieve a similar level as Renault. However, the customers' acceptability of electrification differs by market. Considering this, we will work towards achieving battery EV – ICE parity as early as possible.

Question 5:

Please explain your policy on the dividend.

Answer 5:

Uchida: Our policy remains unchanged, and we will comprehensively consider positive net profit, positive automotive free cash flow and net cash levels.

As we have communicated since last fiscal year, we are expecting to turn automotive free cash flow positive in H2 of this fiscal year. However, as there are uncertain factors such as the semiconductor supply shortage and COVID-19 pandemic, we cannot show clear timing on when to resume the dividend.

We continue to improve profitability and free cash flow with the implementation of Nissan NEXT, in order to resume the dividend as early as possible. We are determined to resume the dividend at an early timing once we can turn our free cash flow positive and achieve healthy operations.

Ma: We understand that our shareholders are eagerly waiting for Nissan to declare the dividend again. We are closely evaluating when we can resume the dividend each quarter.

The first step is achieving positive net income, positive automotive free cash flow, and maintaining a certain level of net cash. At this moment we cannot indicate the timing due to the uncertain environment with the semiconductor supply shortage and pandemic.

However, we have good visibility to turn our free cash flow positive in H2, on the condition that there are no further deterioration of the semiconductor shortage and pandemic. We are doing our best to resume the dividend as early as possible.

Question 6:

Please explain the demand situation, sales momentum, etc. in China.

Answer 6:

Uchida: In China, the market recovered from COVID-19 faster than other regions and is enjoying continuous growth. Nissan is achieving a healthy performance in H1 in terms of quality of sales, market share and profit level. Nissan's sales volume for H1 increased 18.4% from the previous year to 706,350 units, and we would like to keep this current momentum.

Passenger vehicle sales volume increased by 17.8% to 569,419 units; and LCVs increased by 30.1% to 130,709 units. We will launch the new X-Trail by the end of July, and introduce e-POWER equipped models in H2 of this year.

Going forward, we will start receiving pre-orders for the new crossover Ariya. We will further increase our presence in China with the new models like Ariya, which embodies Nissan's value.

There is an impact from the semiconductor supply shortage in China as well, but we have been able to maintain transaction prices relative to competitors. We believe that we can keep a health profit level with our operations.

Gupta: In China, we are not buying market share by incentives, despite an aged product lineup. Under such circumstance, Sylphy is the No.1 selling sedan in China in the JV segment, with a market share of 18.2%. We will increase the value and profitability with the introduction of e-POWER, leveraging the current customer base of Sylphy.

We will establish Nissan as a technology brand in China with the launch of new models, same as we did in the US.

Question 7:

Could you elaborate on why the full-year forecast of net income will stay at only JPY 60 billion, even with the gain on sale of Daimler shares?

Answer 7:

Ma: The Q1 net income was high as it included the gain on the sale of Daimler shares (JPY 76.1 billion).

In terms of geographical segment, our profit is improving in the North America, and we expect an additional tax burden. We also expect interest expense of approximately JPY 11 billion per quarter from the USD and EUR bonds we issued last year.

We are also incorporating JPY 10-20 billion of additional expenses in H2 to prepare for unforeseen matters such as the impact of the COVID-19 pandemic and restructuring.

Given the current circumstance, we believe that our outlook is cautious, and is the best visibility we have.

Question 8:

I believe the outlook for operating profit is conservative even considering the hike in raw material prices, as sales volume is expected to recover with the alleviation of the semiconductor supply shortage. What are the risks that are you assuming?

Answer 8:

Uchida: The COVID-19 pandemic remains uncertain, and we cannot be optimistic considering the current situation in ASEAN and Japan. Our motto after the announcement of Nissan NEXT has been to always accomplish what we said and to achieve steady growth. The improvement in the US market, which was not predictable in May, led to an upward revision of our outlook, but on the other hand there are voices that there may be a further negative impact of raw material prices considering the latest level of index. There is a possibility of change in the demand-supply balance of raw materials with the fast shift to electrification, and on top of that there is an impact of the pandemic. These are leading to rising raw material prices. This is the base of our full year guidance.

Question 9:

Please explain the success factors of the sales reform in the US, differentiating industry factors and Nissan specific factors.

Answer 10:

Gupta: We have implemented the following initiatives in the US.

1) Enhancement of product power by refreshing the product lineup. By FY2023, 80% of our US product lineup will be refreshed, starting from Sentra, and other models such as Rogue, Frontier, Pathfinder, Ariya, Z.

2) In order to enhance sales power, efforts have been made to improve dealer engagement. We shifted from a mass volume incentive-driven business to per unit incentive, driven by the pricing power. This has resulted in dealer engagement for models such as Sentra, Rogue and even with Altima, which is not a new model.

3) Comprehensive fleet strategy. We have reduced our fleet ratio to around 12%, which used to be 30-40%. This has resulted in an improvement in residual value, and the transaction price for Rogue has increased to USD 32,000-33,000, which is higher than 2 Japanese competitors.

4) Until a year ago, CPO (Confirmed Purchase Order), which is production based on orders from dealers, only accounted for 40-50% of total production, and we were pushing with incentives for the rest. Today, this accounts for 90% to 100% of our production, resulting in an improvement in dealer engagement.

With all these factors, we are seeing improvement in residual value, dealer profit, visibility on the wholesale, and transaction price.

Transaction price for Rogue is better than 2 Japanese auto manufacturers in US. Our challenge is to demonstrate that we can sustain this, and we are determined to deliver the results.

Uchida: Since Q2 of last fiscal year, we are steadily seeing the results of what we have been doing, and we are confident about the recovery in the US. We would like to enhance corporate value of Nissan as well as partners including dealers and suppliers, with the introduction of new models. We should be able to ensure sustainable profitability in the US based on this operation. Otherwise, the Nissan NEXT target of 5% operating margin on a China JV proportionate basis in FY23 will not be achievable. We would like to continue delivering strong results in North America going forward.

Question 10:

Would it be possible to launch planned new models smoothly under current circumstances with constraints on semiconductor supply?

Answer 10:

Uchida: We continue to deliver products of highest quality and with optimal time to market, to customers.

Gupta: New model launches are the core not only of our recovery, but also of our growth plan, and we are proceeding as planned. However, we are finetuning the launches depending on the status of the semiconductor supply.

For example, we are not launching Qashqai in all markets in Europe at once, but we are launching step by step, country by country.

[END]