NISSAN
MOTOR CORPORATION

Analyst session for fiscal year 2021 1st half financial results

Q&A

Date/Time	November 9, 2021 / 18:45-19:45

Speakers

Ashwani Gupta	Director, Representative Executive Officer, COO/CPO
Stephen Ma	Executive Officer, CFO

Questions & Answers

Question 1:

Please elaborate on why you are improving the net income much larger than that of the operating profit for revised FY21 outlook?

Answer 1:

Ma: We revised our operating profit up by JPY30 billion. Then below operating profit down to net income, the total has increased about JPY90 billion. Of the 90, about 50 is due to equity method companies, which have performed better than expected. We also had a buffer of approximately JPY20billion in the previous outlook, in case the chip supply or COVID-19 got worse, but as things are more visible and we know how to manage, I did not see the need to keep this buffer anymore. The rest is miscellaneous.

Question 2:

H1 Automotive free cash flow remains negative. What's your expectation for the free cash flow for the automotive business for the full year?

Answer 2:

Ma: Our first half free cash flow is roughly minus JPY350 billion, including JPY150 billion from the sale of Daimler shares, i.e. minus JPY500 billion on a performance basis. All of this is due to working capital change. As we did not have enough chips to finish producing our vehicles, we had some build up in inventory. We also had to pay off the payables to suppliers on the parts we already ordered. So, the big negative on the payable side and on the inventory side. As soon as we get the chips and start increasing production, this negative working capital will reverse automatically in the second half. Chip supply remains uncertain but we are committed to having the second half free cash flow for the automotive business to be positive.

Question 3:

Please elaborate on why revenue will increase by JPY900 billion in H2 from H1, but H2 operating profit decline by JPY100 billion compared to H1.

Answer 3:

Ma: Two main elements are raw materials and investment for new vehicles. Our raw material negative impact for this year will be JPY185 billion and only JPY40 billion for the first half, i.e. JPY145 billion in the second half. Price of precious metals have come down, but we have seen the prices of steel, oil, aluminum etc., go up. We are maintaining our assumptions for the investment in new vehicles and raw materials, so our second half profitability might be cautious. There may be some upside on profit, but it's too early to say at this point.

Gupta: H1 results reflect sales performance, consisting of 1) pricing power, 2) lower incentives, and 3) lower credit losses. If the same supply-demand balance continues, these three will be carried forward in the second half. The fixed cost discipline, which we have done in first half, will also be carried over to the second half. These are the two carryover performances which we are taking to the second half. However, we are keeping the assumptions for the raw material and the fixed cost same.

Question 4:

Are you really expecting to spend marketing expenses related to the new car launches in H2 as planned?

Answer 4:

Ma: In current environment of short supply and high demand and given that the chips was late arriving for some of our models, we decided not to spend as much on marketing, and save it for later in the year. We expect to spend these marketing expense in second half but it depends on how market is coming back.

Question 5:

Please explain why Nissan is more impacted by semiconductors shortage supply compared to competitors.

Answer 5:

Gupta: Everybody is impacted by semiconductor shortage globally. It's very difficult to say who are most impacted and who are less impacted. We have done better than the market average in United States, in China, and in Japan, but we had a hit in Europe. We launched the new Qashqai, which is 50% of our business in Europe, but that was impacted by the semiconductor shortage. Overall, based on what we have seen in the media about the announcements from our colleagues, we think we are absolutely in line regarding the semiconductor shortage. What is important for us is to predict and prepare for coming semiconductor shortage situation.

Question 6:

Please elaborate on the level of the inventory at the end of this fiscal year.

Answer 6:

Gupta: With China, we had around 800,000 units inventory as of the end of last fiscal year, and now, it's almost 50%. It has improved our operational efficiency. We would like to build the inventory if we have more semiconductors, but not to the level of 800,000 units. Our customer orders are extremely high in Japan and in Europe, and our dealers are waiting for the cars in the US.

Question 7:

Please elaborate on +JPY10 billion for Forex/Regulatory and product enrichment and +JPY20 billion for Performance in the operating profit variance between revised outlook and previous outlook.

Answer 7:

Ma: +JPY10 billion is purely FX, which is due to update in FX assumption. Regarding the +JPY20 billion on performance, we can estimate the volume impact of the 600,000 units reduction. We are also looking at our H1 performance in quality of sales, sales finance, used car values, etc., which will be enough to offset the volume negative impact. We consider the current good quality of sales and what we see in terms of market and conservatively consider what's going to happen in second half, plus the negative volume impact.

Question 8:

What are the one-off items for Q2 (3months)?

Answer 8:

Ma: Q2 is very similar to the trend we had in Q1, about half of the JPY 63billion operating profit is credit loss provision release and remarketing.

Question 9:

Aside from the positive free cash flow for the automotive segment in the second half, what are additional conditions that you need to satisfy with regards to the resumption of the payment of dividends?

Answer 9:

Ma: We think that the working capital will come back and improve. We are still uncertain about the extent to which they improve, as it depends on the chip supply, but we are pretty sure that the second half free cash flow will be positive.

Factors we evaluate before we decide on dividends are: 1) to be profitable both on operating profit and on net income, 2) to make sure we have a healthy reasonable level of net cash balance, and 3) positive automotive free cash flow as we want to pay dividend from a cash that's generated by our business. One of our key priorities in Nissan NEXT is shareholder return. We want to resume dividends as soon as we can.

Gupta: In the Q2, our free cash flow is negative not because of our performance, but because of our parts and raw material inventory. We believe that, with all the customer orders we have, if we are able to resume our production in line with what customers are expecting, good quality of sales and lean fixed cost will be maintained. If we produce more, and even start filling our dealer inventories, definitely, we will have a positive free cash flow. If we are able to do that, then all factors will be fulfilled to consider the timing of the dividend.

Question 10:

About the revised outlook, H2 revenue is 20% increase over the H1 but H2 retail volume decreases from H1. Please explain the difference.

Answer 10:

Ma: The retail volume is down H2 versus H1, but our revenue is more linked with wholesale. We expect that the chip supply will start to recover in second half, so our second half wholesale will be a little higher than the first half. We are seeing that the wholesale volume increase in the second half will help bring the revenue up. On top of that, we have the improvement in quality of sales and net revenue per unit.

Question 11:

The price of raw materials for EV batteries have been increasing and are volatile. How do you manage the cost of EVs?

Answer 11:

Gupta: Battery cost is 40% to 50% of the car. The disruption in the technology to improve the battery cost and the performance is much more than the raw material cost increase. For example, the next-generation battery, which we are developing, will have much less cobalt, and the next to next generation will have zero cobalt. We need to keep evolving our technology to make keep improving cost competitiveness. When we launched our first LEAF, the cost was more than USD200/kWh. Today, we are talking about targeting USD100/kWh. In 10 years, the raw material price has increased by 2 times, but because of technology, the cost has improved by half.

Question 12:

Will the H2 net revenue per unit be improved from H1?

Answer 12:

Gupta: Our objective is not to lower down the incentive but is to have a better customer-facing transaction price. As we did for the Rogue that we lifted the customer-facing transaction price, but not lifting the visual price by reducing the incentive, we are going to do the same in the second half. We started doing this even before the semiconductor crisis, mainly in United States, and we will continue.

Ma: With our new vehicles, we have been able to get better net revenue per unit because we don't have to spend as much incentive, and we are pricing them where the customer recognizes the value and are willing to pay for it. Regarding the assumption for the second half, we looked at what we have done in Q1 and Q2, and we have been very careful about making a reasonable, not overly optimistic assumption for H2.

Question 13:

What is your breakeven volume for the full year?

Answer 13:

Ma: Last time I said roughly 1.1 million units per quarter is our breakeven point. Versus that, breakeven point decrease by 15%. If you take all the actual numbers and calculate, the breakeven point will be even lower, but we did not want to take credit for all the market tailwinds or the unusual, good news that's happening. 15% has already been normalized for all of these exceptional factors. We think we can keep this level sustainably going forward.

Question 14:

Is breakeven sales volume better than 4.4 million units and sustainable?

Answer 14:

Ma: Current breakeven point is better than the 4.4 million we mentioned earlier. We would try to maintain at this level, but given raw material costs or other general inflation, this might fluctuate and slightly increase. We have implemented a lot of financial discipline and improved quality of management under the leadership of the COO and CEO, so it's not like in the past where people can increase fixed cost easily. We are much more scrutinizing of fixed cost. I have good confidence, and we are striving to keep this level as much as we can.

Question 15:

Is 5 million units of production possible for the next fiscal year? How much production capacity do you have?

Answer 15:

Ma: Our goal for production capacity for this year is 6 million units with 2 shifts operation. Actual capacity depends on the situation of our products and our sales operation.

Gupta: As we announced in Nissan NEXT, we have taken all of our decisions to reduce our capacity, and it is absolutely on track, including closure of Barcelona at the end of this year. Because of the semiconductor shortage, we are adjusting our number of shifts to make sure that our breakeven point is optimized.

[END]