COMPANY RESEARCH AND ANALYSIS REPORT

Nissan Tokyo Sales Holdings Co., Ltd.

8291

Tokyo Stock Exchange Prime Market

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Summary

Improving market share with the successive roll out of advanced new vehicles

1. One of the largest auto-dealerships in Japan selling new Nissan brand vehicles and other vehicles

Nissan Tokyo Sales Holdings Co., Ltd. <8291> (hereafter, also "the Company") is a holding company under whose umbrella includes vehicle sales subsidiaries affiliated with Nissan Motor Corporation <7201>. It conducts businesses including sales of new Nissan and Renault brand vehicles, trade-ins and sales of used vehicles, and vehicle maintenance. The Company is one of the largest auto-dealerships in Japan, with a sales area covering nearly 90% of the population of metropolitan Tokyo. In peripheral businesses, it also conducts original businesses that do not rely on the Nissan brand. In addition, TOKYO NISSAN COMPUTER SYSTEM CO., LTD. <3316>, a publicly listed subsidiary, is engaged in an information systems-related business, centered on a solutions-provider business. The net sales composition of the Company's vehicle-related business for FY3/22 stood at about 95%, accounting for most of its net sales. In July 2021, the Company integrated the three Nissan Motor sales subsidiaries under its umbrella and established Nissan Tokyo Sales Co., Ltd.

2. Strengths include "Nissan's technologies" for advancing vehicle electrification and intelligence

The Company stands out for being a provider of one-stop services for living with cars. It possesses strengths in implementing "best practices" that allow it to smoothly turn the cycle of one-stop services. "Best practices" refer to systems for dealerships and sales personnel to share expertise and a variety of information at sales sites and other locations. These practices have led to improved sales and sales promotion hit ratios, and to an increase in sales unit price. Another strength of the Company is "Nissan's technologies." More than just a traditional slogan, "Nissan's technologies" is a phrase that signifies the technological strength of Nissan Motors, which has pioneered the development of electric vehicles (EVs) and technologies to support automated driving, thereby advancing vehicle electrification and intelligence. The Company's strength lies in its ability to carry such advanced Nissan brand vehicles. As part of its long-term vision, Nissan Motor plans to conduct further technology development and roll out even more new vehicles.

3. Double-digit operating profit increase in FY3/22 through a rise in the average unit price and integration benefits, despite vehicle supply shortage

In the FY3/22 results, net sales were ¥138,378mn (down 1.5% YoY) and operating profit was ¥4,407mn (up 27.9% YoY). Partly because customers' intent to purchase is recovering from the novel coronavirus pandemic (hereafter, COVID-19), orders were also accumulated steadily. However, due to vehicle supply shortages caused by component supply shortages reflecting factors such as a global semiconductor shortage and overseas lockdowns, the number of vehicles sold slumped, leading to a slight decrease in net sales. Nonetheless, the Company delivered a double-digit increase in operating profit. The main reasons for this increase were a rise in the average unit price owing to an improved model mix, which reflected strong orders for luxury-type vehicles, such as the new model AURA. AURA won a triple crown of awards, including Car of the Year Japan. Other reasons included strong performances by the maintenance business and used vehicle retail sales, and progress on the efficient use of SG&A expenses mainly owing to integration benefits. The double-digit operating profit increase was also supported by stronger sales promotion and sales capabilities as a result of the integration of the three sales subsidiaries.

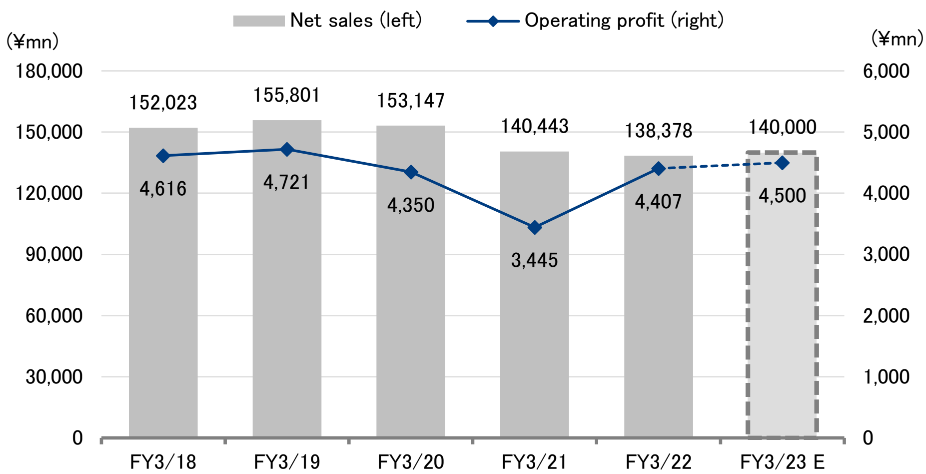
4. Seeking to improve market share in FY3/23 by harnessing an enhanced lineup of Nissan brand vehicles

For the FY3/23 results outlook, the Company is forecasting net sales of ¥140,000mn (up 1.2% YoY) and operating profit of ¥4,500mn (up 2.1%). Because Gtnet, Inc., a subsidiary of the Company, was excluded from the scope of consolidation, this forecast means that net sales are expected to effectively increase by around 6%, but this increase will likely have almost no impact on profit. The Company's management faces headwinds, such as a continuing vehicle supply shortage, as well as high materials and fuel costs and the yen's depreciation. In response, the Company will strive to improve market share by harnessing an enhanced lineup of Nissan brand vehicles. The lineup will be enhanced through the full-scale expansion of ARIYA and the roll-out of SAKURA, which is Nissan's first EV kei car (minicar). Concurrently, the Company aims to expand revenue against the backdrop of efforts to increase average unit price through proposal-based sales and improve sales efficiency through integration benefits. Although costs will increase due to factors such as the accelerated introduction of the Nissan Retail Concept, operating profit is forecast to increase by only 2.1% against an effective increase of 6% in net sales. This forecast appears to be slightly conservative.

Key Points

- Strengths include "best practices" and "Nissan's technologies." Three sales subsidiaries were integrated to establish Nissan Tokyo Sales.
- Delivered double-digit profit growth in FY3/22 based on the popularity of advanced new vehicles such as AURA, which won a triple crown of awards including Car of the Year Japan
- In FY3/23, the Company plans to make up for worsening environmental conditions, including vehicle supply shortages, with an enhanced lineup and proposal-based sales.

Results trends



Source: Prepared by FISCO from the Company's financial results

Company outline

Japan's largest Nissan Motor-affiliated auto-dealership

1. Company outline and history

The Company is a holding company under whose umbrella include Nissan Motor-affiliated auto-dealerships (Nissan Tokyo Sales). It conducts a business of selling Nissan and Renault brand vehicles based in Tokyo, which is the center of Japan with a large population concentration, and boasts one of the largest dealerships among Tokyo's auto dealerships even among nationwide Nissan-affiliated dealerships. It mainly buys and sells the vehicles and maintenance parts of Nissan Motor and its group companies. It also conducts other businesses, including trade-ins and sales of used vehicles, vehicle body maintenance, and mandatory vehicle inspections. In addition, the listed subsidiary TOKYO NISSAN COMPUTER SYSTEM CO., LTD. is engaged in an information systems-related business, centered on a solutions-provider business.

The Company was founded in Tokyo City in 1942 as Tokyo Prefecture Automobile Supply Co., Ltd., based on the Ministry of Commerce and Industry's Guidelines to Establish an Automobile and Automobile Parts Supply Structure. After the war in 1946, it changed its company name to Tokyo Nissan Auto Sales Co., Ltd., and subsequently its business scope gradually expanded alongside motorization, and in 1961, it was listed on the Tokyo Stock Exchange (TSE) 1st Section. In 1989, it established TOKYO NISSAN COMPUTER SYSTEM to enter the systems business; in 2002, it established Shakenkan to strengthen mandatory vehicle inspections; and then in 2004, TOKYO NISSAN COMPUTER SYSTEM was listed on the JASDAQ market. Also, in the same year, it transitioned to a holding company structure through a company split and changed the company name to East Japan Car Life Group Co., Ltd. In 2008, it conducted a capital increase through a third-party allocation for NISSAN NETWORK HOLDINGS COMPANY LIMITED, which is a subsidiary of Nissan Motor, and it became an equity-method affiliate of Nissan Motor. In 2011, it made the three Tokyo-based companies--Nissan Auto Sales Co, Ltd., Nissan Prince Tokyo Sales Co., Ltd., and Nissan Prince West Tokyo Sales Co., Ltd.---into Group companies, thereby significantly expanding its Nissan vehicles dealership business, including undertaking practically all sales of Nissan vehicles in Tokyo. Alongside the transition to the new holding company structure, it changed its company name to the current Nissan Tokyo Sales Holdings Co., Ltd. The Company integrated the three sales companies in July 2021, 10 years after they joined the Group, to establish Nissan Tokyo Sales to further improve efficiency and scale merits, thereby forming the largest auto-dealership in Japan in both name and reality.

History

Date	Description
November 1942	Established as Tokyo Prefecture Automobile Supply Co., Ltd., in Kyobashi Ward, Tokyo City
October 1943	Changed company name to Metropolitan Tokyo Automobile Maintenance Supply Co., Ltd.
February 1946	Changed company name to Tokyo Auto Sales Co., Ltd.
December 1946	Changed company name to Tokyo Nissan Auto Sales Co., Ltd.
September 1955	Relocated the Head Office to Tameike, Minato Ward
October 1961	Listed on the TSE 1st Section
January 1971	Relocated Head Office to Roppongi, Minato Ward
March 1977	Made Tokyo Nissan Motor Co., Ltd., a base and accepted some personnel
April 1982	Established Tohnichi Services Co., Ltd.
July 1985	Acquired part of the sales of New Tokyo Nissan Auto Sales Co., Ltd.
March 1989	Established TOKYO NISSAN COMPUTER SYSTEM CO., LTD.
June 1999	Established Showajima Service Center Co., Ltd.
July 2000	Relocated the Head Office to Nishi Gotanda, Shinagawa Ward
October 2002	Established Shakenkan Co., Ltd.
August 2003	Tohnichi Services conducted an absorption merger of Showajima Service Center and changed the company name to Ace Auto Services Co., Ltd.
March 2004	TOKYO NISSAN COMPUTER SYSTEM was listed on the JASDAQ market
April 2004	Transitioned to a holding company structure through a company split and changed the company name to East Japan Car Life Group Co., Ltd.
February 2008	Conducted a capital increase through a third-party allocation of shares for NISSAN NETWORK HOLDINGS COMPANY LIMITED
April 2011	Made subsidiaries of Nissan Prince Tokyo Sales Co., Ltd., and Nissan Prince West Tokyo Sales Co., Ltd.
April 2011	Transitioned to a new holding company structure for the greatly expanded Nissan dealership business and changed the company name to Nissan Tokyo Sales Holdings Co., Ltd.
April 2012	Changed the company name of Ace Auto Services to NT AUTO SERVICE INC.
July 2019	Made a subsidiary of Gtnet, Inc.
July 2021	Will integrate the three Nissan-affiliated vehicle sales subsidiaries (scheduled) Integrated the three Nissan-affiliated vehicle sales subsidiaries, established Nissan Tokyo Sales Co., Ltd.

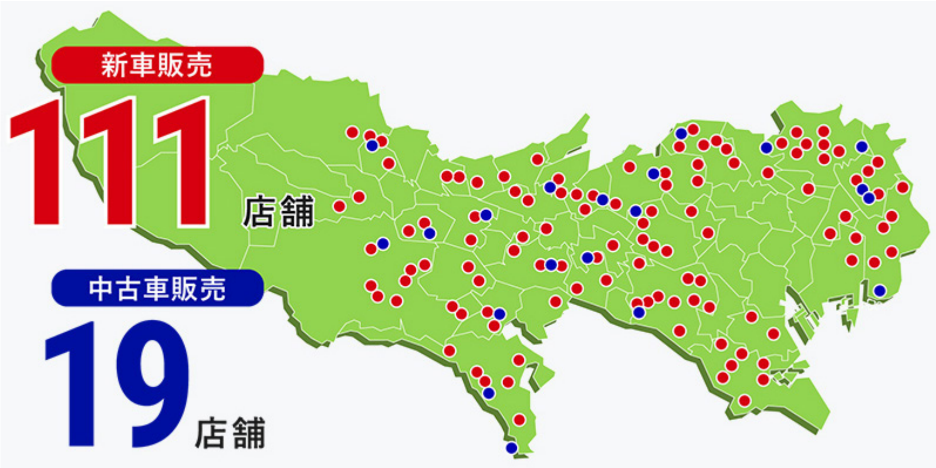
Source: Prepared by FISCO from the Company's securities report, etc.

Flexibly addressing a period of great reforms

2. Summary of the organization

The Company has eight subsidiaries (including three non-consolidated subsidiaries) and two other affiliates. Among the subsidiaries, Nissan Tokyo Sales was formed by the integration of the three companies of the former Tokyo Nissan Auto Sales, the former Nissan Prince Tokyo Sales (including the virtual company Renault NT Sales), and the former Nissan Prince West Tokyo Sales. It sells new vehicles and its base is all the areas of metropolitan Tokyo excluding eight of Tokyo's central wards. Incidentally, the eight central wards, which are Chiyoda, Chuo, Minato, Shinjuku, Bunkyo, Taito, Shibuya and Toshima wards, correspond to Tokyo's city center, and this area is slated for a business being developed by a Nissan Motor consolidated subsidiary, mainly for corporate demand (it can be said to be Nissan Motor's direct sales area). However, while being the city center, the population of these eight wards is only about 1.8 million, which is just over about 10% of metropolitan Tokyo's total population of 14 million people. In other words, the areas that constitute the Company's base cover nearly 90% of Tokyo's population.

Nissan Tokyo Sales' network



Source: The Company's website

The three former sales companies, which joined the Group in 2011, have so far created advantages by collaborating in various areas, such as sales and maintenance. However, inevitably inefficiencies remained from these three companies existing separately, and further reforms became necessary. Meanwhile, the environment surrounding the automotive industry has changed greatly compared to 10 years ago because of rapid developments, such as vehicle electrification and automated driving, and it is said to be in a "period of great reforms that occurs once every 100 years." There is now a need among automakers and dealers to adapt to these great reforms in order to survive through these times. To flexibly address these changes in the internal and external environments, the Company decided to integrate the three former sales companies in July 2021, and thereby optimize the Group's business resources and personnel assignments with a view to achieving sustained growth in this new era. With these measures, the Company is strongly determined to enhance efficiency and synergies in all manner of situations and generate scale merits. Along with further evolving efficiency and synergies, the Company plans to increase net sales and profits by enhancing its competitiveness. It will become more and more competitive by pushing ahead with measures such as promoting digital transformation (DX), transforming dealership and sales operations, bolstering personnel strategies and raising the sophistication of store networks. As the three companies were wholly owned subsidiaries, the integration may have a slight impact on the Company's results in the short term, but it is believed that it will contribute significantly to results in the medium- to long-term, including through increasing efficiency and scale merits.

That said, the number of new vehicle sales has stopped growing due to factors such as a declining birthrate and aging population, shrinking demographics, and a decreasing percentage of vehicle ownership, and the industry has entered an era in which the number of vehicles nationwide is trending unchanged YoY at around 5 million. Therefore, for dealerships to grow as companies, they must increase their profitability through scale merits and dealer consolidation, and also develop an independent strategy to promote growth. As with other dealerships, the Group handles used vehicles, in addition to sales of new vehicles. Nissan Tokyo Sales resells vehicles that are traded in at the time of a new vehicle sale, and also buys and sells vehicles at used vehicle auctions. For vehicle maintenance and vehicle inspections, apart from the dealership network of Nissan Tokyo Sales, NT AUTO SERVICE INC. and Shakenkan each independently conduct vehicle body maintenance, mandatory vehicle inspections and related services, which enables them to acquire a wide range of users. The Company is also developing P.O.P.: personal leasing, for which it has a history of more than 20 years and a high market share. Notably, the P.O.P. service with “zero deposit, tax and charges included, and a fixed price” is a service that is extremely convenient for consumers who consider it acceptable to use a vehicle without owning it. For the Company as well, compared to the usual purchase-replacement cycle of over 10 years, in the case of P.O.P., more than 70% of customers change to their next vehicle in three years, so it is a business with good sales efficiency. For this reason, P.O.P. is expected to act as one driver of growth and boost the Company’s profits.

The website of the personal leasing P.O.P. brand

Source: The Company’s website

Incidentally, TOKYO NISSAN COMPUTER SYSTEM is a subsidiary listed on the Tokyo Stock Exchange Standard Market that conducts a managed services* business, which includes sales of computer hardware and software, and data centers. The Company holds a 53.9% share in TOKYO NISSAN COMPUTER SYSTEM, which has a long history as a listed company and its transactions with the Company’s Group constitute no more than 8.3% of its total transactions (FY3/21), and the majority of its sales are external sales. Other than the above, the Company rents real estate and leases some to its affiliates.

* Managed services: Outsourcing services to provide support to customer companies for situations like consolidating core work and improving work efficiency and productivity, not only by administering, managing and monitoring customer companies’ information assets, but also by utilizing IT to continuously provide new value.

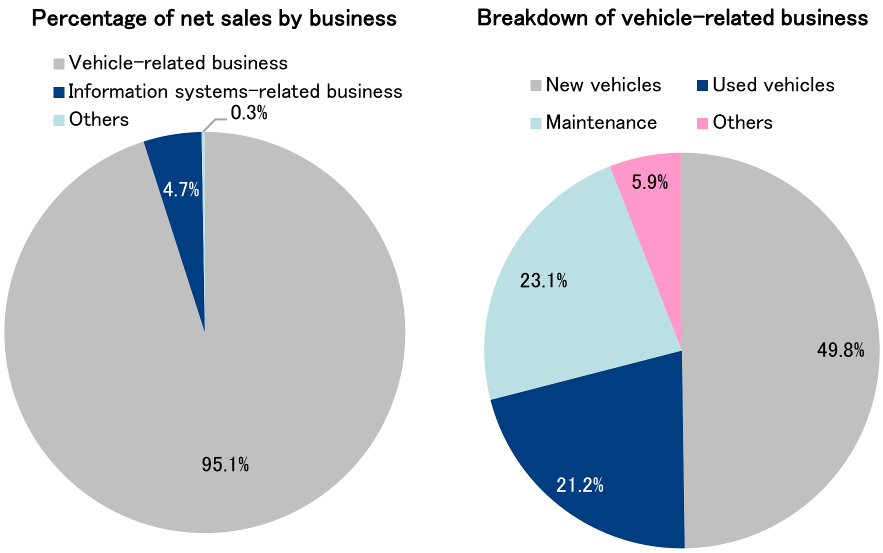
Business description

Nissan Tokyo Sales connects Nissan Motors to consumers

1. Business description

The Company's business is divided into three business segments: the vehicle-related business, the information systems-related business, and other businesses. The vehicle-related business is further subdivided into new vehicle sales, used vehicle sales, maintenance, and others. In FY3/22, the vehicle-related business provided the majority of results, of approximately 95% of total net sales, and around half of this was from sales of new vehicles. The relationship between Nissan Motor and Nissan Tokyo Sales is mainly that Nissan Tokyo Sales purchases vehicles and parts from Nissan Motor and then sells them to general consumers and others. However, Nissan Tokyo Sales also plays the role of connecting Nissan Motor to the consumer, such as for conducting PR and holding test drive events for cutting-edge technologies like EV, Pro-PILOT (a driver assistance technology), e-POWER (Nissan's proprietary hybrid unit), e-4ORCE (a four-wheel control technology), and expanding installations of rapid chargers.

Breakdown of net sales (FY3/22)



Source: Prepared by FISCO from the Company's financial results

(1) The vehicle-related business

Nissan Tokyo Sales sells new Nissan vehicles, while its businesses also include trade-ins and sales of used vehicles, and other services such as maintenance and vehicle inspections. Naturally it handles all of Nissan's models. Sales of new vehicles improve the turnover of used vehicle sales and it has formed a stable value chain by accumulating sales from recurring businesses such as maintenance, and it has a good sales balance between new vehicle, used vehicle, and other sales. In terms of earnings, maintenance forms a stable earnings base, while the supply of used vehicles is largely dependent on new vehicles for purchases, so new vehicles play the role of driving the earnings of the Group as a whole. The Company's market share had been weak for a long period, but this was because there had been few new vehicles launches for the Nissan brand compared to other brands. But as will be explained in more detail below, in the past few years Nissan Motor has been working vigorously to make a comeback through launching new vehicles and conducting an image strategy, and the Company's share has also been rising. For sales of Renault vehicles, the Company operates five specialist Renault dealerships and they hold an 8% share (FY3/21) of sales of Renault vehicles nationwide and rank No.1 for the number of vehicles sold at nationwide dealerships.

The Tokyo Nissan Hachiojiminamino dealership

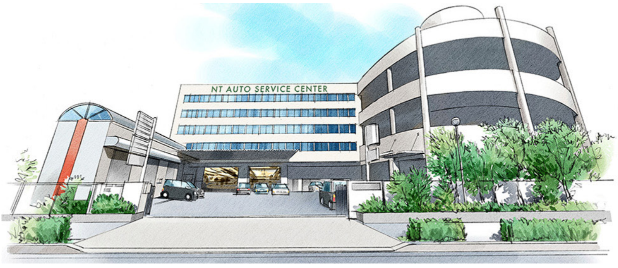
Renault Setagaya

Source: The Company's website

(2) Vehicle-related other than new vehicles

Nissan Tokyo Sales, as with other manufacturers, handles the trade-in and sale of used cars as an aspect of sales promotion for new vehicles. Trade-ins are provided through Nissan Kauzo, a service managed by the Nissan dealership network, including the Company. Nissan Kauzo offers trade-in at high prices by eliminating the intermediary margin. Used cars certified by Nissan Motor are sold together with a full warranty and after-sales services at Quality Shops that meet strict customer service levels. Naturally, the Company is also classified as a Quality Shop. At Nissan Motor's official used car site, shoppers can compare and review around 18,000 vehicles from 600 dealerships nationwide. Maintenance is one of the pillars of recurring business for Nissan Tokyo Sales. NT AUTO SERVICE, which is a large-scale, comprehensive vehicle maintenance company, plays the role of being the Group's concentrated center for services, including vehicle body panel work and painting, mandatory vehicle inspections, and maintenance of purchased vehicles through services with assured levels of quality and the latest equipment as its specialized business. As of the end of March 2022, it has seven service centers in Tokyo and one in Saitama, equipped with industry-leading technologies that can deal with the aluminum bodies of luxury imported vehicles, and they have a track record of conducting mandatory vehicle inspections for 39,060 vehicles (FY3/22), and servicing a total of 70,337 vehicles (FY3/22). Vehicle inspection work is also carried out by Nissan Tokyo Sales, as well as Shakenkan, an operator of specialist vehicle inspection workshops. Shakenkan has a network of 12 specialist vehicle inspection workshops in Tokyo, Kanagawa, Saitama, and Chiba. Its selling point is that all of its workshops are designated plants with the latest equipment, and that employees with national certification use assured technologies to inspect the vehicles brought in by customers. Other than the above, the vehicle-related business includes the aforementioned personal car leasing service P.O.P., a general insurance and life insurance agency business, a vehicle transportation and registration agency business, and a dealership specialized in campervans that use a Nissan vehicle as the base vehicle.

NT AUTO SERVICE Showajima Service Center



Shakenkan Itabashi Store

Source: The Company's website

(3) The information systems-related business

The Company's information systems-related business is carried out by TOKYO NISSAN COMPUTER SYSTEM, which sells "ITte," an integrated management service for auto-dealerships nationwide. As previously stated, this company's reliance on the Nissan Tokyo Sales Group is extremely low and it can be basically said to be independent. Conditions in the IT industry to which TOKYO NISSAN COMPUTER SYSTEM belongs are being stimulated by the spread of teleworking and other workstyle reforms that are being triggered by COVID-19. It is anticipated that these active conditions will continue even after the COVID-19 pandemic settles down, against the backdrop of DX for society as a whole. In this sort of business environment, TOKYO NISSAN COMPUTER SYSTEM has established its vision of being "the most reliable company to handle IT infrastructure" and aims to be the best partner that supports its customers' sustainable growth as a managed services company that creates value for customers. Also, against the backdrop of DX for society as a whole, the Company is being required to utilize for business the big data accumulated in the Group, such as on customers, vehicles sold, and various driving conditions and traffic conditions. Going forward, TOKYO NISSAN COMPUTER SYSTEM will be a great reassurance to the Company.

Strengths include horizontal development of best practices and "Nissan's technologies"

2. The Company's strengths

The Company's strengths include its provision of one-stop services for living with cars and "Nissan's technologies" that constitutes its business backbone. The aim is for the Company's one-stop services for living with cars to be able to deliver customer satisfaction anywhere from a single base. They are comprised of sales of new and used vehicles and sales of other related services, including personal leasing, after-sales services like vehicle inspections, regular inspections, maintenance, and repairs, sales of optional parts such as car navigation systems and drive recorders, and sales of insurance and financial products (credit leasing). Moreover, for the Company as well, these are recurring income-type businesses that stabilize its corporate earnings, and by conducting trade-ins of used vehicles, it can build a value cycle of customers returning to the dealership to buy a new vehicle and providing them with various services. This cycle of one-stop services is certainly one of the Company's strengths, and actually it is carried out in basically the same way at every dealership. Therefore, rather than this cycle itself, the Company's strength can be said to be the framework for generating earnings by smoothly turning this cycle, and in the background to this framework are "consolidation" and "best practices."

The consolidation of the three former sales companies that previously existed separately combined them into one group, and as a result, eliminated the discount competition between different but affiliated dealerships that often occurs elsewhere. It also led to other merits, such as the consolidation of shared costs and the sharing of deliveries and maintenance. But today with the integration completed, it seems natural to pursue the strength of consolidation. However, the shared meetings held continuously since they were grouped, which is one result of the consolidation, enabled the "best practice" in which their information and expertise was developed horizontally at a rapid pace. But it is considered that the integration was needed for this to be further upgraded to a higher stage and to connect it to more effective sales and management. Whatever the case, effects are occurring through the strength of "best practice," in that the Company's sales promotions and sales hit ratios are increasing, its ability to make proposals for luxury upgrades and options are improving, and the sales unit price per vehicle is rising. This is why dealerships can achieve an operating profit margin of around 3%, which is relatively high for auto-dealerships, even while being located in high-cost areas like Tokyo. Another of the Company's strengths is TOKYO NISSAN COMPUTER SYSTEM, which is capable of analyzing the huge amount of big data on 300,000 vehicles, which is indispensable for improving the hit ratio.

Nissan Motor is accelerating the roll out of new models with cutting-edge technologies

3. "Nissan's technologies"

Nissan Motor is currently implementing a four-year medium-term plan called Nissan NEXT. This plan sets forth NISSAN INTELLIGENT MOBILITY as the core concept of Nissan Motor's campaign to present the advanced level of its technologies and its aggressive approach. The concept expresses Nissan Motor's advanced technologies such as technology that will enable the vehicle to recognize the driver as its partner and communicate, learn, predict, and charge. These advanced technologies will be realized through the development of electrified vehicles featuring advanced driving support technologies, through vehicle electrification and intelligence. Drivers can not only drive with peace of mind, but can also have a new driving experience of being connected to the world around them, and the aim is to provide them with a completely new way of driving. Ultimately, the aim is to realize a society with "zero emission" and "zero fatalities (zero traffic accident deaths)." Furthermore, in November 2021, Nissan Motor drew up its long-term vision, "Nissan Ambition 2030." In this vision, Nissan Motor seeks to bolster its ambitions for technology in areas such as vehicle electrification and intelligence. Through this effort, it seeks to sell Pro-PILOT in more than 2.5 million vehicles by FY3/27, and to launch all-solid-state batteries, which are next-generation batteries, by 2028. By 2030, Nissan Motor plans to install next-generation, high-performance LiDAR (core technology for automated driving) in most of its new vehicle models. As a result, Nissan Motor aims to launch 23 new electrified models, including 15 new EVs, by FY3/31, and to increase the global electrification sales mix (the global model mix of electrified vehicles) to more than 50%.

In line with these medium- to long-term targets, Nissan Motor has steadily advanced vehicle electrification and intelligence. Notable measures in FY3/22 included the launch of the AURA, which is the luxury model of NOTE, and ARIYA, a new-model crossover EV (acceptance of pre-orders for the limited edition has started). Both AURA and ARIYA are proving highly popular as automobiles that symbolize NISSAN INTELLIGENT MOBILITY. AURA offers high power and solid driving stability, along with enhanced features, while ARIYA is equipped with the latest-generation vehicle electrification technologies, automated driving technologies, the newly developed e-4ORCE four-wheel control technologies, and it will be able to travel a very long distance of 610 km on a single charge, addressing the driving distance issue for EVs. In FY3/23, the Company plans to successively roll out new vehicles, such as the ARIYA B6 (standard model), the new kei car (minicar) EV SAKURA, and FAIRLADY Z. With the market launch of the standard B6 model, the domestic roll-out of the ARIYA model will proceed in earnest. As Nissan Motor's second major EV following LEAF, the ARIYA model is expected to drive the growth of Japan's EV market together with rival vehicles that will be launched at the same time. The new kei car (minicar) EV SAKURA, which was jointly developed by Nissan Motor and Mitsubishi Motors, was also launched into the market. SAKURA features an actual sales price of around ¥2mn and a driving distance that allows daily reliable use as a home-use battery system. The well-known and globally popular FAIRLADY Z will also appear on the scene. FAIRLADY Z is the quintessential sports car in terms of features such as its high performance, sophisticated interior and exterior and elegant silhouette. Nissan Motor is strengthening its aggressive approach to the market through these new vehicles and plans to achieve a number of new vehicle sales (based on application of the equity method) of 4mn vehicles (up 3.2%) in FY3/23.

The main Nissan vehicles that embody NISSAN INTELLIGENT MOBILITY

Source: Prepared by FISCO from the Company's results briefing materials

Business trends

EVs are starting to offer prospects for a bright future in an unsteady environment

1. The automotive industry environment

Semiconductor shortages, lockdowns and other factors have caused continuing vehicle supply shortages, which have become an issue for the whole automotive industry. The number of semiconductors used per product has been growing organically with the increasing sophistication of the functionality of products such as information devices, home electric appliances, and automobiles. Under these conditions, the rivalry between the U.S. and China has spurred moves among foundries (semiconductor outsourcing manufacturers) to shift from China to Taiwan, so semiconductors have been in an environment in which bottlenecks are inherently more likely to occur. Meanwhile, demand for information devices and home electric appliances has been growing as telework and online learning become more and more common during the COVID-19 pandemic. There has also been a rapid increase in the need for semiconductors. However, demand in the automotive industry recovered faster than had been expected when the initial downturn in demand due to the COVID-19 pandemic ended, but the industry fell behind information device manufacturers and others in the procurement of semiconductors, which caused a bottleneck in automobile production to occur. Another factor is that semiconductor manufacturers tend to avoid short-term contracts timed to match the just-in-time production of the automotive industry, because semiconductor production requires relatively long lead times. In addition, there have been global container shortages and city-level lockdowns have been implemented due to sporadic COVID-19 outbreaks, particularly in the production areas of automotive components, such as Shanghai and Vietnam. Due partly to those factors, the supply of semiconductors for automobiles has remained unstable to this day. Consequently, vehicles have been in short supply at automobile sales sites, and at this time most people believe these conditions will continue for the rest of 2022.

The number of new vehicles sold in FY3/22 strongly reflects the changes in the external environment described above. In 1Q, the number appears to have grown, partly due to the rebound from the suspension of plant operations in the same period of the previous fiscal year. However, there was a declining trend overall due to the continuing impact of the semiconductor shortage. The difference between the number of new vehicles sold by the Nissan Tokyo Sales Group and the number sold within Tokyo reflects a difference in supply by automakers that happened to occur over a certain period. It is believed that the difference between the number of new vehicles sold by the Nissan Tokyo Sales Group, the number sold within Tokyo, and the number sold nationwide was the result of the fact that major metropolitan areas, where business sentiment improved, happened to be given priority for the supply of vehicles. That said, comparing the number of new vehicles sold and the number sold in the period before the COVID-19 pandemic and the semiconductor shortage caused by the pandemic (FY3/20) with a simple calculation, the percent changes were 83.6% nationwide, 82.4% within Tokyo and 84.0% for the Nissan Tokyo Sales Group, indicating that the Company continues to steadily improve its share. Although the continued decrease in the number of new vehicles sold is a concern, in addition to the conditions described above, it is reassuring to note that the demand side is not necessarily in a downturn as orders have been steadily increasing month after month. That said, with growing risks surrounding business conditions and corporate earnings, conditions remain highly uncertain. Specific risk factors include a decline in consumer sentiment due to the Ukraine situation, as well as high raw materials and fuel costs, logistics disruptions, and the rapidly weakening yen.

YoY trend in no. of new vehicles sold in FY3/22 (based on registration date)

	1Q (April-June)	2Q (July-September)	3Q (October-December)	4Q (January-March)	Full-year (April-March)
Nationwide	123.8%	85.2%	80.8%	83.7%	90.5%
Within Tokyo	134.8%	90.8%	78.3%	86.2%	93.7%
Nissan Tokyo Sales Group	119.4%	87.5%	90.1%	84.4%	92.3%

Source: Prepared by FISCO from the Company's financial results

Meanwhile, opportunities have also emerged. EVs are being rapidly adopted primarily in Europe and China, but it is difficult to say that EVs are being widely adopted in Japan. This is because Nissan Motor is basically the only company that has entered Japan's EV sector in earnest, and the ratio of EVs to the number of new vehicles sold is still very small. For this reason, retailers and gas stations with parking lots that could help with the build out of EV infrastructure such as charging stations are unable to fully commit to investment in light of the cost and the prospects for recovery. Furthermore, the lack of a sufficient number of charging stations is also making consumers hesitate to purchase EVs. Against this backdrop, the Company, which can be described as a flagbearer for EVs, has been the only player to continue to actively invest in EV infrastructure. For example, the Company has installed charging stations at its dealerships and made them available for use to all EVs, including those of other automakers. Toyota Motor Corporation, which is Japan's largest automaker, was so far thought to be focusing on hybrid vehicles and FCVs (Fuel Cell Vehicles). However, Toyota Motor now entered the EV sector with an expansive lineup of vehicles. Of course, these Toyota EVs will compete with those of the Company. However, even more than this increased competition, the roll out of Toyota EVs will have a sizable effect on energizing the market by increasing the number of EVs. It will also reduce the bar for investment, and it is now more likely that the build out of EV infrastructure in Japan will proceed sooner. This can be described as a welcome development for the Company, which has served as a pioneer in the EV sector.

Orders followed a steady trend, despite a slight decrease in net sales due to the vehicle supply shortage

2. FY3/22 results

In the FY3/22 results, net sales were ¥138,378mn (down 1.5% YoY), operating profit was ¥4,407mn (up 27.9%), ordinary profit was ¥4,188mn (up 35.1%), and profit attributable to owners of parent of ¥2,100mn (up 28.2%). From the start of 1Q, the Company adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No.29, March 31, 2020), etc. As a result, net sales increased by ¥839mn and operating profit, ordinary profit, and profit before taxes, etc., each increased by ¥81 million, compared with what would have been recorded in the period before the standard was applied. The post-COVID-19 environment, where people adapt to living with the coronavirus, has been continuing due to factors such as the spread of the Omicron strain. Under these conditions, the business environment came under pressure due to rising costs, such as fuel costs, as well as an uncertain outlook for the supply of vehicles. Meanwhile, demand continues to be firm, and orders have been increasing despite delays in the delivery of new vehicles due to the vehicle supply shortage.

FY3/22 results

(¥mn)

	FY3/21		FY3/22		
	Result	% of sales	Result	% of sales	% change
Net sales	140,443	100.0%	138,378	100.0%	-1.5%
Gross profit	32,302	23.0%	32,793	23.7%	1.5%
SG&A expenses	28,857	20.5%	28,386	20.5%	-1.6%
Operating profit	3,445	2.5%	4,407	3.2%	27.9%
Ordinary profit	3,101	2.2%	4,188	3.0%	35.1%
Profit attributable to owners of parent	1,638	1.2%	2,100	1.5%	28.2%
Inventories	10,144	-	11,405	-	12.4%

Source: Prepared by FISCO from the Company's financial results

During the COVID-19 pandemic, after thoroughly conducting hygiene management, the Company continued to manage dealerships and to work to spur a recovery in the number of vehicles sold. As a result, orders recovered, supported partly by improved purchasing sentiment among customers. However, particularly from 2Q onward, growth in the number of vehicles sold has been sluggish due partly to delivery delays caused by the vehicle supply shortage. We cannot rule out the possibility that the number of EVs sold, particularly for LEAF, which is supported by subsidies, would have grown considerably more had there been an abundant supply of vehicles. With the integration of the three sales subsidiaries, the disadvantages of integration due to factors such as integration of sales and planning, and system modifications, ordinarily emerge in the early phase of integration. In the Company's case, it had already advanced collaboration among the three sales subsidiaries starting 10 years ago, so the integration appears to have had almost no negative impact on net sales. Meanwhile, the Company bolstered proposal-based sales, and thereby achieved strong sales of luxury-type new models, such as EVs and e-POWER, and options such as coatings and license plate locks. These strong sales led to an increase in the average unit price.

On the profit front, in addition to the improvement to the models mix, results in the maintenance and used vehicles sales businesses were solid, so the gross profit margin improved 0.7 of a percentage point (pp). Elsewhere, while sales activities have been gradually returned to normal, the Group continued to pursue efficiency improvements that were advanced during the COVID-19 pandemic, including increasing remote sales discussions and spreading out sales discussions from weekends to weekdays. In addition, an increasing number of customers are obtaining knowledge in advance from the Internet and magazines, so the ratio of sales to dealership visits is rising because of this advanced knowledge. Also, efficiency improvements from the integration of the three sales subsidiaries in July are emerging in terms of advertising and equipment costs. These efficiency improvements were achieved through such means as unifying sales promotion campaigns and advertisements and reducing the number of test drive vehicles through sharing with nearby dealerships. The effects of consolidation and scale merits seem to have appeared as well. Therefore, the Group made progress on the efficient use of SG&A expenses and reduced the actual amount of such expenses. As a result, the Group achieved higher profits despite lower net sales. Compared to the initial forecasts, net sales fell short of forecast by ¥6,622mn because of the vehicle shortage. However, operating profit surpassed forecast by ¥407mn, mainly due to the rise in the average unit price through proposal-based sales and the effects of integration.

NOTE/AURA win a triple crown of awards including Car of the Year Japan

3. Trends by business

By business, in the vehicle-related business, net sales were ¥131,533mn (down 1.3% YoY) and segment profit (operating profit) was ¥4,748mn (up 26.1%); in the information systems-related business, net sales were ¥6,486mn (down 4.9%) and segment profit was ¥423mn (up 16.3%); and in other businesses, net sales were ¥358mn (up 10.8%) and segment profit was ¥144mn (up 11.3%).

FY3/22 results by segment (before adjustments)

(¥mn)

Net sales	FY 3/21		FY 3/22		
	Result	% of sales	Result	% of sales	% change
Vehicle-related business	133,295	94.9%	131,533	95.1%	-1.3%
New vehicle	-	-	65,475	47.3%	-
Used vehicle	-	-	27,896	20.2%	-
Maintenance	-	-	30,352	21.9%	-
Other	-	-	7,809	5.6%	-
Information systems-related business	6,823	4.9%	6,486	4.7%	-4.9%
Other businesses	323	0.2%	358	0.3%	10.8%

Segment profit	FY 3/21		FY 3/22		
	Result	Profit margin	Result	Profit margin	% change
Vehicle-related business	3,766	2.8%	4,748	3.6%	26.1%
Information systems-related business	364	5.3%	423	6.5%	16.2%
Other businesses	129	39.9%	144	40.2%	11.6%

Note: Results shown for new vehicle, used vehicle and other are for FY2/22.
Source: Prepared by FISCO from the Company's financial results

In the vehicle-related business, amid a vehicle shortage in the new vehicle business, the Company enhanced its network of Nissan Retail Concept dealerships (construction began on six dealerships; three dealerships were opened) and worked to win orders and generate earnings with a focus on e-POWER vehicles such as the NOTE and EVs such as the LEAF. These efforts resulted in an increase in segment profit in the vehicle-related business. Notably, the AURA, which was launched as the luxury version of the NOTE, delivered strong results. The AURA attracted a new customer segment more interested in imported vehicles and sales numbers consistently achieved high rankings. The AURA won a triple crown of awards, including Car of the Year Japan. In the used vehicles business, the number of vehicles sold decreased due to a decline in trade-in vehicles following a decrease in new vehicle sales, but the Company concentrated on highly profitable retail activities, and prices rose atop firm demand for used cars equivalent to new vehicles, leading to increased profits. Overall, the Company achieved a double-digit increase in segment profit in the vehicle-related business, due partly to improved productivity and reduced costs reflecting the integration of the three sales subsidiaries. In the information systems-related business, net sales of hardware, introduction-support services and other items decreased, but net sales from managed services, which includes data centers, were strong. As a result, segment profit increased despite a decrease in net sales. In the other businesses (real estate-related business), net sales and segment profit both increased mainly due to an increase in rental agreements and rent revisions. In March 2022, the Company sold its shares of subsidiary Gtnet, Inc. (equity interest: 51%) to the original owner. The Company sold these shares because it had become difficult to capture synergies between the Company, which sells general passenger cars primarily in Tokyo, and GTNET, which sells used cars with high asset values, such as sports cars, at its nationwide dealerships. At FISCO, we believe that the decision to sell these shares was appropriate from the perspectives of investment efficiency and cost burden.

New vehicles to be successively rolled out in FY3/23, amid a vehicle supply shortage

4. FY3/23 results outlook

For the FY3/23 results outlook, the Company is forecasting net sales of ¥140,000mn (up 1.2% YoY), operating profit of ¥4,500mn (up 2.1%), ordinary profit of ¥4,200mn (up 0.3%), and profit attributable to owners of parent of ¥2,200mn (up 4.7%). Given that GTNET was excluded from the scope of consolidation, net sales are forecast to effectively increase by around 6%, but there appears to be almost no impact on profits.

FY3/23 results outlook

(¥mn)

	FY3/22		FY3/23		
	Result	% of sales	Forecast	% of sales	% change
Net sales	138,378	100.0%	140,000	100.0%	1.2%
Gross profit	32,793	23.7%	-	-	-
SG&A expenses	28,386	20.5%	-	-	-
Operating profit	4,407	3.2%	4,500	3.2%	2.1%
Ordinary profit	4,188	3.0%	4,200	3.0%	0.3%
Profit attributable to owners of parent	2,100	1.5%	2,200	1.6%	4.7%

Source: Prepared by FISCO from the Company's financial results

The automotive industry continues to face uncertain conditions, due to factors such as the continuing vehicle supply shortage caused by the global semiconductor shortage. There are also headwinds for corporate management, including high materials and fuel costs and the yen's depreciation. In response, the Company plans to strive for improved market share by harnessing the advanced technology initiatives undertaken by Nissan Motor and an enhanced lineup featuring electrified vehicles (EVs and e-POWER vehicles), among other products. The Company aims to grow earnings by continuing to make value-added sales and improve sales efficiency through proposal-based sales. Moreover, the Company plans to pave the way for improving productivity and customer convenience by further harnessing the effects of integration of the three sales subsidiaries. In FY3/23, as described earlier, the new vehicles scheduled to be rolled out are models such as the ARIYA B6, the new kei car EV SAKURA, and the FAIRLADY Z. The roll-out of more new models in FY3/23 than in usual years seems to underscore Nissan Motor's strong determination to succeed.

The outlook is even more uncertain for FY3/23 than in the previous fiscal year, because a full range of risk factors are in place from the beginning of the fiscal year, including the vehicle supply shortage, international conditions, high raw material and fuel costs and the yen's depreciation. However, considering the strength of demand evidenced by the build-up of orders, and Nissan Motor's aggressive approach to new vehicles, we at FISCO believe that the Company should be able to cover the impact of the deconsolidation of Gtnet and realistically target an increase in net sales. On the profit front, we believe that the model mix will improve in line with increased sales of new vehicles, leading to improvement in the gross profit margin. In addition, although costs will increase due to factors such as the roll out of new vehicles and the introduction of the Nissan Retail Concept to dealerships, the Company does not expect any effects of integration (particularly the rebound from one-time cost increases at the time of integration) from July onward, when the integration will have settled down, so it will likely have room to control SG&A expenses. The Company is forecasting only a slight increase in operating profit despite an effective increase in net sales of around 6%. We believe this forecast is somewhat conservative, but it is perhaps unavoidable given the large number of risk factors faced by the Company.

Striving to achieve sustained growth through new sales styles

5. Initiatives for sustained growth

As part of its initiatives for sustained growth, the Company is working to provide virtual test drive experiences that harness Nissan Motor's innovation and virtual reality (VR) and to contribute to carbon neutrality through new sales styles.

First, the Company has continued to carry out renovations to introduce the Nissan Retail Concept to existing dealerships. The goal is to transform dealerships into facilities that spread information far and wide on Nissan brand vehicles that embody NISSAN INTELLIGENT MOBILITY, which expresses Nissan Motor's innovation. In FY3/23, the Company plans to step up the pace of renewals and introduce the Nissan Retail Concept at nine dealerships. Moreover, in March 2022, the Company set up the NISSAN TOKYO Virtual testdrive Booth (VR-based test drive experience) within the permanent exhibition space at AEON Mall Tamadairano Mori in Hino, Tokyo. At the booth, one to four visitors at a time can enjoy a virtual test drive experience without wearing goggles. Currently, four types of test drive experiences are available for the SERENA e-POWER, NOTE/AURA e-POWER, NISSAN GT-R, and NISSAN 360° Safety Assist (advanced safety technology). We are excited about the possibility that the NISSAN TOKYO Virtual testdrive Booth might be improved and transplanted to the Nissan Retail Concept dealerships in the future. Contributing to carbon neutrality is arguably one of the Company's most important initiatives to achieve sustained growth. EVs, particularly the LEAF, are said to hold down CO_2 emissions from the resource to disposal stages to around 40% in comparison with a gasoline vehicle in the same class. Therefore, the Company's efforts to actively sell EVs and raise the ratio of EVs to new vehicles will directly contribute to carbon neutrality. The cumulative number of LEAF EVs sold has already surpassed 8,000 (March 2022), and the Company is increasing fast charging stations (101 out of 430 stations in Tokyo) to promote further widespread use of EVs. The Company is also promoting contribution to local communities through EVs. It has concluded disaster collaboration agreements with local governments and has built power supply system for evacuation shelters and other facilities.

The medium-term management plan

Determined to achieve continuous growth while maintaining high earnings

1. Summary of the medium-term management plan

The Company's corporate philosophy is to "Aim to continue to be the leading car dealership group in Tokyo, the biggest market in Japan." While it will not change this corporate philosophy in the future, it is said that the automotive industry is in "a period of great reforms occurring once every 100 years" due to the rapid evolution of technologies. In addition, concern is also growing that demand will decrease due to factors such as Japan's declining birthrate and aging population. During this period of great reforms, it is considered that the Company is continuing to grow while maintaining high earnings by working to achieve its three targets, which are to even more thoroughly implement best practices, develop new sales styles and new products, and expand scale through M&A.

First steps taken to achieve the three targets

2. Progress made in the medium-term management plan

One of the three targets is to implement even more thoroughly "best practices." On this front, the Company completed the integration of the three sales companies in the previous fiscal year, which had already achieved many results through their collaborations. The positive effects of the integration are already emerging in areas such as advertising costs, which have been reduced by unifying campaigns and advertisements. From FY3/23 onward, the Company will eagerly pursue additional synergies and scale merits. It will strengthen optimal proposal-based sales that accurately capture the trends of the times and customer needs. By doing so, the Company will expand sales of automotive products that accurately capture car owners' needs, promote P.O.P. personal leases as a way of driving for a new era, thoroughly conduct added-value sales such as expanding sales of L2H* in line with the EV era, as it strives to maximize its market share and earnings. Meanwhile, the Company has started to take specific steps to develop new sales styles and products, and to expand scale through M&As, which are priorities it has steadily prepared for even during the COVID-19 pandemic. To develop new sales styles and products, the Company plans to reform sales methods and to push ahead with DX for new sales styles. Measures will include utilizing big data, strengthening digital marketing, and introducing VR (virtual reality) systems thought to be best suited for vehicle promotions. The evolution of existing dealerships through the introduction of the Nissan Retail Concept is a prerequisite for achieving those plans. The Company has now started introducing the Nissan Retail Concept at an accelerated pace. Also, with regard to measures to expand scale through M&As, the Company is targeting one M&A a year in businesses peripheral to the businesses of the Group companies, mainly the vehicle-related business, with Tokyo and the regions around Tokyo as the target areas. However, it can be said that while the intentions of management for this are strong, it is unclear whether it can conduct M&As on a convenient timing that will generate synergies.

* L2H (LEAF to Home): a power-supply device to feed electricity externally from an EV (to the home as a whole, electric products, etc.)

Medium-term growth image should return to the original trajectory

3. Medium-term growth image

The Company formulated its medium-term management plan before COVID-19, so it was perhaps unavoidable that the Company has departed from the initial growth image due to the variable elements of COVID-19, including the semiconductor shortage. However, as part of its medium-term management plan and long-term vision, Nissan Motor plans to launch many new models into the market, such as EVs and e-POWER vehicles, and actively fit vehicles with advanced technologies such as Pro-PILOT and e-4ORCE. Moreover, the Company, which has played a pioneering role particularly in EVs, is benefitting from tailwinds such as trends toward abolishing gasoline vehicles and the entry of Toyota Motor Corporation, Japan's largest automaker, into the EV sector. While addressing this environment, the Company has continued to actively implement management initiatives, such as integrating the three sales subsidiaries, introducing the Nissan Retail Concept to existing dealerships, and setting up the NISSAN TOKYO Virtual testdrive Booth. For these reasons, the Company does not need to change its growth strategy even though it has departed from its original growth image. The growth trend is forecast to return to the original trajectory the Company had envisaged over the medium and long terms.

Additionally, the Company has already started formulating its next medium-term management plan and is scheduled to announce it sometime during FY3/23.

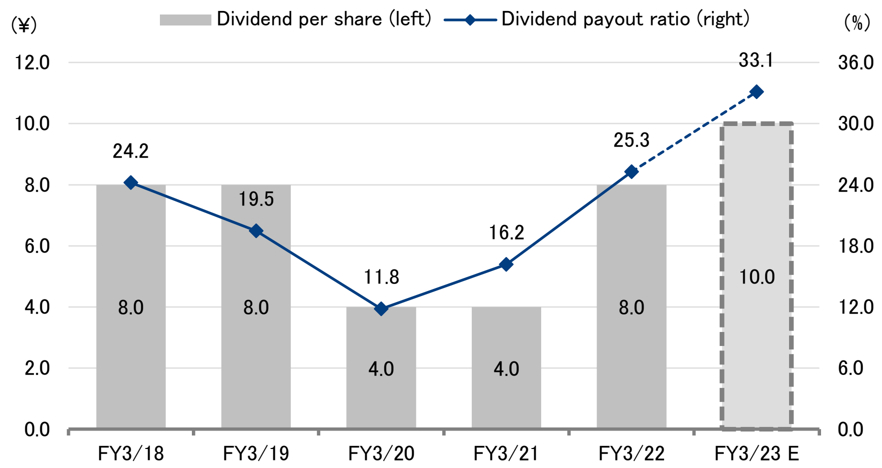
Shareholder return policy

Plans call for a consecutive dividend increase and a dividend payout ratio of over 30% in FY3/23

1. Dividend policy

The Company is aware that returning profits to shareholders is one of its most important management issues, and its basic policy is to stably pay dividends while considering retaining internal reserves to secure growth potential. For the dividend payment, its basic policy is to pay once a year at the end of the period, and the deciding body is the general meeting of shareholders. It also stably conducts investment in each period, including to realize new sales styles and for the IT associated with this, and also to establish new dealerships and to refurbish existing dealerships. Based on these factors, it targets a dividend payout ratio of 30%. For the FY3/22 dividend, considering that profits have recovered to levels before the COVID-19 pandemic, as well as the basic policy described above, the Company has set the period-end dividend per share at ¥8, an increase of ¥4 per share from the previous fiscal year. For FY3/23, the Company plans to increase the dividend by a further ¥2 per share for an annual dividend of ¥10 per share (interim dividend of ¥5 and period-end dividend of ¥5). This means that the dividend payout ratio is now expected to surpass the target of 30%. The Company introduced an interim dividend from FY3/23, with the goal of increasing opportunities to return profits to shareholders.

Trends in the dividend per share and the dividend payout ratio



Source: Prepared by FISCO from the Company's financial results

Gives an original QUO card

2. Shareholder benefits program

The Company has introduced a shareholder benefits program in order to express its gratitude to its investors for their support, and also to increase the appeal of investing in its shares and to encourage as many investors as possible to hold its shares over the medium- to long-term. The shareholders eligible for the shareholder benefit program are those who hold at least 5 units (500 shares) of the Company shares and who were recorded or registered in the shareholders' registry as of the date of record (March 31). In this program, the Company plans to give an original QUO card featuring a design of the Company's popular car models and worth ¥1,000 to shareholders holding 500 to 999 shares and worth ¥2,000 to those holding 1,000 to 4,999 shares. It will give a card worth ¥3,000 to shareholders continuously holding 5,000 or more shares for less than 2 years, and a card worth ¥5,000 to those continuously holding them for 2 years or longer. As the gift-giving period, the Company plans to give the cards once a year after the end of the ordinary general meeting of shareholders (sometime in the second half of June).

Gift to shareholders of original QUO cards

108th period

109th period

Source: The Company's website

Information security

The Company complies with all relevant laws and ordinances, including the Act on the Protection of Personal Information and the Act on the Use of Numbers to Identify a Specific Individual in Administrative Procedures (My Number Act), as well as in-Company regulations. It appropriately collects and uses the personal information handled by each Group Company and information that can be used to identify specific individuals, including personal numbers and other information that identifies an individual (personal information including the personal number and its content). It also appropriately manages and handles personal information securely and in an up-to-date condition, protects the personal information of customers, business partners, and Company employees, and works to respond to the trust they place in it.

Disclaimer

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