COMPANY RESEARCH AND ANALYSIS REPORT

Nissan Tokyo Sales Holdings Co., Ltd.

8291

Tokyo Stock Exchange First Section

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Summary

Covering the semiconductor shortage in such ways as launching new models

1. Integrated three sales subsidiaries and established Nissan Tokyo Sales Co., Ltd.

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. Its sales areas cover close to 90% of the population of Metropolitan Tokyo and it is the largest auto-dealership in Tokyo. It also conducts original businesses that do not rely on the Nissan brand, including sales of used vehicles and maintenance. In this way, it is centered on the vehicle-related business, and this business provided the majority of results in 1H FY3/21, of 96% of net sales and 90% of operating profit. In addition, the listed subsidiary TOKYO NISSAN COMPUTER SYSTEM Co., Ltd. <3316> conducts an information systems-related business, centered on a solutions-provider business. 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 best practices and Nissan’s technologies

The Company’s strengths, which are characterized by one-stop services for living with cars, include “consolidation” and “best practices” to smoothly turn the cycle of one-stop services. The “consolidation” achieved through the integration of the sales subsidiaries is considered natural as a strength, but in the future, synergies and scale merits are also expected. “Best practices” involves sharing expertise and information at sales sites and other locations and developing them horizontally, which leads to increases in sales and sales promotion hit ratios, and also to an improved sales unit price. This is why the dealerships can achieve a relatively high operating profit margin even while being located in Tokyo, which is an area with high costs. “Nissan’s technologies,” which is another of the Company’s strengths, is not simply the traditional slogan of Nissan Motor, it also indicates that the Company is backed by the technological strength of Nissan Motor as a manufacturer, which has developed EV (electric vehicles) and technologies to support automated driving in advance of its industry peers, and that handling advanced new vehicles launched one after another is also one of the Company’s strengths.

3. The rise in the average unit price is covering for the vehicle supply shortage due to the semiconductor shortage

In the 1H FY3/22 results, net sales were ¥68,827mn (up 9.3% YoY) and operating profit was ¥1,476mn (up 488.1%). Partly because customers’ intent to purchase is recovering from the novel coronavirus pandemic (hereafter, COVID-19), orders are also recovering steadily. However, due to delays in deliveries resulting from the vehicle supply shortage because of the semiconductor shortage, the number of vehicles sold (vehicles delivered to new owners) slumped, mainly in the three months of the 2Q. However, against the backdrop of the accumulation of orders and the strengthening of sales capabilities due to the integration and “best practices,” orders were strong for luxury-type vehicles, such as the new model AURA, and the average unit price rose due to the models mix, so it is considered that the Company was able to cover for the slump to a certain extent. In profits, in addition to the improvement of the models mix, results trended solidly in the maintenance and used vehicles sales businesses, so the gross profit margin improved. The SG&A expenses ratio also improved, as progress was made in effectively using SG&A expenses, including from the effects of the integration.

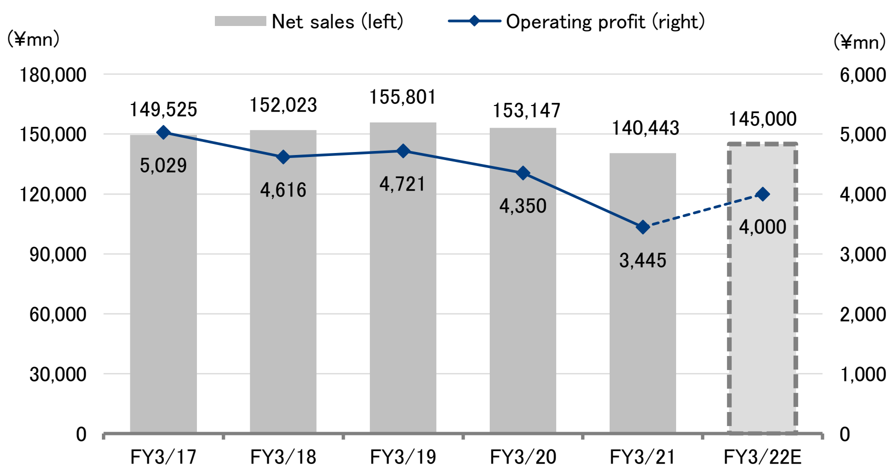
4. Despite deterioration of the external environment, no change to basic growth strategy

For the FY3/22 results outlook, the Company is forecasting net sales of ¥145,000mn (up 3.2% YoY) and operating profit of ¥4,000mn (up 16.1%). Despite the progress made in the vaccination programs, the business environment has become harsher as economic conditions in the future remain uncertain and there are concerns about the impact of the global semiconductor shortage on the supply of vehicles. However, based on the NISSAN INTELLIGENT MOBILITY concept on which it is moving forward, Nissan Motor is launching a series of new models, including EV and vehicles installed with e-POWER. Among them, expectations are extremely high for the ARIYA, Nissan Motor's first crossover EV that has been available for reservation since June 2021 and symbolizes "Nissan's technologies." Progress on the medium-term management plan appears to be slightly behind schedule due to the deterioration of the external environment, including COVID-19 and the vehicle supply shortage, but it does not appear necessary to change the basic growth strategy.

Key Points

- Has integrated the sales companies and established Nissan Tokyo Sales. Strengths include "best practices" and "Nissan's technologies"
- During a "period of great reforms that occurs once every 100 years," the external environment has deteriorated due to such factors as COVID-19 and the vehicle supply shortage
- Earnings are being supported by the favorable reception of a series of newly launched models that use cutting-edge technologies. Expectations are great for the ARIYA in particular.

Results trends



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

Company outline

The integration makes it Japan's largest auto-dealership in both name and reality

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 the largest dealership 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 on the Internet, vehicle body maintenance, and mandatory vehicle inspections. In addition, the listed subsidiary TOKYO NISSAN COMPUTER SYSTEM CO., LTD. conducts an information systems-related business, mainly 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.

Looking back, a major turning point was when the Company added three companies to the Group in 2011. Many auto-dealerships developed a similar lineup from within the brand strategies of affiliated manufacturers and competed not only with the networks of other manufacturers, but also with the network of dealerships of the same manufacturer. However, the number of new vehicle sales stopped growing due to factors such as the declining birthrate and aging population, the declining population, and the percentage of people who own vehicles, and we have 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 earnings through scale merits and dealer consolidation, and also develop an independent strategy to promote growth. Within the industry, the Company responded very quickly to these environmental changes, heading down the path of both integrating the sales companies and diversifying corporate strategy simultaneously. Recently, a movement has strengthened to integrate dealerships for each manufacturer and in each area, but the Company was a pioneer in forming a group and the integration on which it spent 10 years on moving forward is considered to be the source of its strengths, which are described below.

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.

Responding to changes in the internal and external environments toward a new period of growth

2. Summary of the organization

The Company has 10 subsidiaries (including 3 non-consolidated subsidiaries) and 2 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 8 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 already created advantages through collaborating in various areas, such as for sales and maintenance. However, even though they covered different areas, inevitably inefficiencies remained from these three companies existing separately, and the Company also needed to conduct reforms. In addition, the environment surrounding the automotive industry has changed greatly compared to 10 years' ago against the backdrop 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." To respond to the changes in its internal and external environments, the Company integrated the three former sales companies, which it believes will enable it to optimize the Group's business resources and deployments of personnel, increase efficiency and synergies in all areas, and create scale merits toward a new era of sustainable growth. It is also further deepening the sharing of best practices, which is one of the Company's strengths, and progressing measures such as promoting DX (digital transformation), reforming dealerships and sales operations, strengthening the human resources strategy, and increasing the sophistication of the dealership networks. These initiatives are leading to increased competitiveness and the growth of sales and profits. As the three companies were wholly owned subsidiaries, the integration will have a negligible effect 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.

In addition to sales of new vehicles, the Group also handles used 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. Gtnet, Inc., handles not only Nissan vehicles, but also independently conducts used vehicle trade-ins and sales via actual dealerships and the Internet. Apart from than Nissan Tokyo Sales, NT AUTO SERVICE INC., Gtnet, and Shakenkan also conduct vehicle maintenance and vehicle inspections, not solely for Nissan vehicles as they each independently conduct vehicle body maintenance and mandatory vehicle inspections, which enables them to acquire a wide range of users. In addition, TOKYO NISSAN COMPUTER SYSTEM is a subsidiary listed on JASDAQ 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

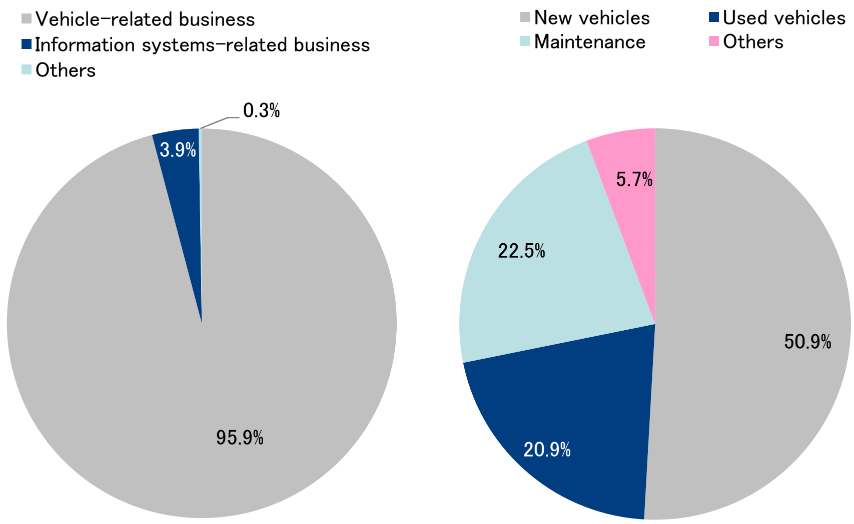
Nissan Tokyo Sales connects Nissan Motors to consumers

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 1H FY3/22, the vehicle-related business provided the majority of results, of 96% 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, ProPILOT (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 (1H FY3/22)

Percentages of net sales by business | Breakdown of vehicle-related business



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 vehicle launches for the Nissan brand compared to other brands and as Nissan Motor's image had worsened, including due to the arrest of the former chairman Carlos Ghosn. 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 a 12% share (FY3/19) of sales of Renault vehicles nationwide and rank No.1 for the number of vehicles sold at nationwide dealerships.

The Tokyo Nissan Hino dealership

Renault Setagaya

Source: The Company's website

(2) Vehicle-related other than new vehicles

Used vehicles sales are also handled by Gtnet, which was made a subsidiary in 2019. Nissan Tokyo Sales' handling of used vehicles has the aspect of being sales promotion for new vehicles, while Gtnet conducts a used vehicles business for trade-ins and sales mainly of used sports cars. As Gtnet mainly deals with expensive sports cars, it has in place a transaction structure to give customers peace of mind, including setting its own strict quality standards. It has 15 dealerships nationwide, from Hokkaido to Kyushu, and also 8 vehicle inspection centers (as of the end of October 2021). Meanwhile, it also manages a portal site for trade-ins and sales of sports cars and various services are provided on this website, from trade-in assessments, used vehicle searches, and vehicle inspection estimates, through to sales of parts. GNET handles not only Nissan vehicle models but also various other models equally, including those of Toyota Motor Corporation <7203> and Honda Motor Co., Ltd.<7267>.

Maintenance is one of the pillars of recurring businesses for Nissan Tokyo Sales, but 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 October 2021, it has eight 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 inspection for 41,559 vehicles (FY3/21), and panel work and painting work for a total of 17,393 vehicles (FY3/21). Vehicle inspection work is also carried out by Shakenkan and Gtnet. Shakenkan has a network of 11 specialist vehicle inspection workshops in Tokyo, Kanagawa, and Saitama. Its selling point is that all of its workshops are designated plants with the latest equipment, and that employees with national certification using assured techniques to inspect the vehicles brought in by customers.

Other than the above, the vehicle-related business includes 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.

Gtnet's homepage

Shakenkan Itabashi Store

Source: The Company's website

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. People's values are shifting from owning various things to using and sharing them, and in this situation, the personal leasing of vehicles is also rapidly growing. Within it, 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 leasing, more than 70% of customers change to their next new vehicle in 3 years, so it is a business with good sales efficiency. For this reason, P.O.P. is expected to be one driver of growth in the future that will boost the Company's profits.

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

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, a subsidiary listed on JASDAQ, 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 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 is expected to be customers' strong partner for big data utilization.

Strengths include 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 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 these merits. 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. 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 these strengths, 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 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.

Despite slumping for a period, Nissan Motor, which is known for" Nissan's technologies," has a reputation for original technological capabilities and it has accumulated various technologies, such as for electrification and for making vehicles intelligent and connecting them. That is, through technological innovation in the new field called CASE*, the concept of the vehicle has changed greatly, such as the so called "vehicles as huge smartphones," while the world is starting to move toward abolishing gasoline vehicles with the aim of becoming carbon neutral. In this situation, Nissan Motor is being reevaluated against the backdrop of factors such as its development of EV ahead of industry peers. Moreover, leveraging these technological capabilities, Nissan Motor is steadily implementing its plan to increase launches of new models, of which there had been few during its slump, and its "Yachiyae NISSAN" (Do it, Nissan!) campaign, which includes TV commercials that appeal these technologies to potential customers, has cemented its image as an EV pioneer. Therefore, another of the Company's strengths is being the only dealership in Tokyo that handles these vehicles with "Nissan's technologies."

* CASE stands for Connected, Autonomous, Shared, Electric.

Nissan Motor is launching a series of cutting-edge new models

3. NISSAN INTELLIGENT MOBILITY

NISSAN INTELLIGENT MOBILITY is the core concept of Nissan's Motor's campaign that presents the advanced level of its technologies and its aggressive approach. The concept expresses its advanced technologies, such as the vehicle recognizing the driver as its partner and communicating, learning, predicting, and charging. Drivers can not only drive with peace of mind, but they 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 emissions" and "zero fatalities (zero traffic accident deaths)." In the second half of November in this year, Nissan Motor announced its long-term vision, 'Nissan Ambition 2030'. Within it, with regards to electrification technology, which is one of the main pillars of the NISSAN INTELLIGENT MOBILITY concept, it states that while market launching all-solid-state batteries, which are next-generation batteries, in FY3/28 it will launch 23 new-type electrically powered vehicle models, including 15 EV, by FY3/30, and it is aiming to increase the global model mix of electrically powered vehicles to more than 50%. Also, for its vehicle-intelligence technologies, which are advanced driver-support technologies, it is aiming for more than 2.5 million sales of ProPILOT by FY3/26.

In line with these medium- to long-term targets, in FY3/21 Nissan Motor launched models including the new-model ROOX subcompact car, the new-model KICKS e-POWER, and the new-model NOTE e-POWER. While the new-model ROOX is a subcompact car, it is equipped with all-direction advanced safety technologies and comes installed with technologies including ProPILOT and SOS calls, and it has been highly evaluated as the best for safety, the top priority when selecting a vehicle. The new-model KICKS e-POWER has only the e-POWER setting, and it is one size smaller than the X-Trial, a size that Nissan has not offered before, so it is expected to have a net effect of increasing sales in the fiercely competitive SUV category. The new-model NOTE e-POWER is the latest model of the vehicle that has been a major hit and represents Nissan Motor, so naturally it is expected to increase sales and profits for the Company as well. It also only has the e-POWER setting. In FY3/22, Nissan Motor is expected to launch luxury-type new models, including the AURA (June 2021 launch) and the seventh FAIRLADY Z (August 2021, announced a model for the US market). Among the launches, the most noteworthy is the ARIYA, a new-model crossover EV. It will be equipped with the latest-generation electrification technologies, automated driving technologies, the newly developed e-4ORCE four-wheel control technologies, and connecting technologies, and it will be able to travel a very long distance of up to 610km on a single charge, addressing the driving distance issue for EV. It is likely to come to symbolize NISSAN INTELLIGENT MOBILITY as providing overwhelming power with a futuristic style. Reservations for it started in June 2021, and it is proving extremely popular, as described below.

The main Nissan vehicles that embody NISSAN INTELLIGENT MOBILITY

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

Business trends

Semiconductor shortage affecting the entire automotive industry

1. The automotive industry environment

There are two things to be uneasy about regarding the number of new vehicles sold in 1H FY3/22: The growth rate for the number of new vehicles sold nationwide declined significantly in the 2Q (July to September) compared to the 1Q (April to June); and the Company's share of the number of new vehicles sold within Tokyo, declined after having been rising up until then. In the background to the first point are factors including that on the one hand, in the 1Q sales grew significantly as a rebound from the decrease one year earlier due to the declaration of a state of emergency, and on the other hand, there was a parts supply shortage due to the global semiconductor shortage and the lockdowns implemented in some parts of Southeast Asia due to COVID-19. Also, demand in the 1Q of the previous year was pushed back until the 2Q, and therefore sales in the current 2Q were sluggish in comparison. Consequently, the same trends occurred for sales of new vehicles within Tokyo and by the Company. For the second point, the result is considered to reflect the temporary decline in the number of sales of subcompact cars, which are being strongly affected by the semiconductor shortage. However, the average unit price rose, including due to sales of new models, and as is explained below, the Company maintained a double-digit increase in the pace of sales. Also, the number of vehicles sold in the 2Q was weak, but conversely orders trended strongly. Therefore, it is expected that there will be no changes to Nissan Motor's medium-term strategy of expanding its consumer models lineup, and the Company's sales trend for an increasing share is also projected to continue.

YoY trend in no. of new vehicles sold in 1H FY3/22

	1Q (April-June)	2Q (July-September)	1H (April-September)
Nationwide	123.8%	85.2%	101.1%
Within Tokyo	134.8%	90.8%	108.3%
Nissan Tokyo Sales Group	119.4%	87.5%	99.5%

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

There are many issues in the current period, but among them one of the biggest is the semiconductor shortage. In the context of the conflict between the US and China, the semiconductor shortage is occurring in an environment in which bottlenecks are inherently more likely to occur, such as that the foundries (semiconductor outsourcing manufacturers) are shifting from China to Taiwan. Also, due to COVID-19, on the one hand vehicle production has fallen, but on the other hand nesting (stay-at-home) related demand is growing rapidly, including for PCs. Vehicle production rapidly recovered in the 2Q and moreover the number of semiconductors used per vehicle is steadily increasing, which is causing bottlenecks to occur. Adding to this are the effects of a fire at a parts plant, the cold wave in the US, and a lockdown in Malaysia due to COVID-19, and on entering this period, one vehicle manufacturer after another decided to reduce their production. Another cause of the shortage is that the automotive industry's just-in-time approach is not well suited to semiconductor production, which requires a lead time of 3 to 4 months, and on the point of flexibility in times of emergency, it has tended to be subordinate in terms of procurement to the PC industry and other industries. The current situation is that is no definite end is in sight to resolving the semiconductor shortage, but it is possible that it will be resolved by December at the earliest but maybe not even resolved until into the next fiscal year at the latest.

During the semiconductor shortage, the number of vehicles sold was unchanged YoY, but orders are trending strongly

2. 1H FY3/22 results

In the 1H FY3/22 results, net sales were ¥68,827mn (up 9.3% YoY), operating profit was ¥1,476mn (up 488.0%), ordinary profit was ¥1,438mn (up 1,632.5%), and profit attributable to owners of parent was ¥809mn (up 20,125.0%). From the start of the 1Q, the Company adopted the Accounting Standards for Recognizing Revenue (Corporate Accounting Standards No.29, March 31, 2020). As a result of this, in the 2Q net sales increased ¥3,922mn, and each of operating profit, ordinary profit and profit before taxes, etc., increased ¥386mn.

1H FY3/22 results

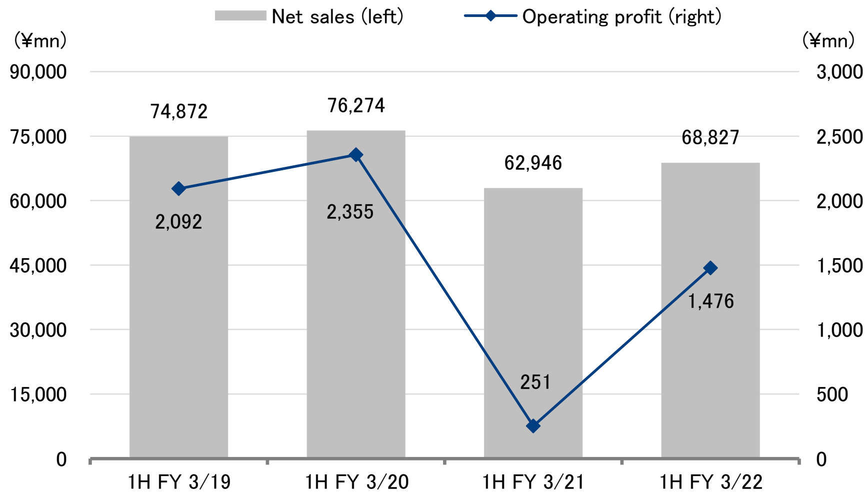
(¥mn)

	1H FY3/21		1H FY3/22		
	Result	% of sales	Result	% of sales	% change
Net sales	62,946	100.0%	68,827	100.0%	9.3%
Gross profit	13,980	22.2%	15,709	22.8%	12.4%
SG&A expenses	13,729	21.8%	14,233	20.7%	3.7%
Operating profit	251	0.4%	1,476	2.1%	488.0%
Ordinary profit	83	0.1%	1,438	2.1%	1,632.5%
Profit attributable to owners of parent	4	0.0%	809	1.2%	20,125.0%

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

During the COVID-19 pandemic, after thoroughly conducting hygiene management, the Company has continued to manage dealerships and to work to recover the number of vehicles sold. As a result, orders are steadily recovering alongside the recovery of customers' intent to purchase. However, delays in deliveries have occurred due to the vehicle supply shortage, and therefore the growth of vehicle sales has been sluggish. But within sales, the extent of the decline in sales of subcompact cars is contracting, while sales of new models, including luxury models, have been strong against the backdrop of the strengthening of the Group's sales capabilities due to the integration and "best practices." As a result, the average unit price from the models mix has risen and the Company was able to secure a close to double-digit increase in sales. In profits, 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 0.6 of a percentage point (pp). Elsewhere, while sales are gradually returning to normal, the Group has been moving ahead on efficiency improvements during the COVID-19 pandemic, including increasing remote sales discussions and distributing 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, while there have been no particular cost reductions due to the July integration, it appears that the effects of the consolidation and scale merits are already gradually being realized. Therefore, the Group is progressing the efficient use of SG&A expenses, and the SG&A expenses ratio improved 1.1 pp and a V-shaped recovery of operating profit was achieved in the 2Q. Compared to the initial forecasts, it seems that progress was made basically in line with the forecasts, because although the vehicle shortage was worse than anticipated, the rise in the average unit price has been able to cover for this.

Results trends by fiscal half



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

The new models are proving popular and the used vehicles and maintenance businesses are performing strongly

3. Trends by business

By business, in the vehicle-related business, net sales were ¥65,996mn (up 10.6% YoY) and segment profit (operating profit) was ¥1,717mn (up 258.5%); in the information systems-related business, net sales were ¥2,656mn (down 15.4%) and segment profit was ¥118mn (up 19.2%); and in other businesses, net sales were ¥174mn (up 8.1%) and segment profit was ¥67mn (up 3.1%). So, profits increased in every business.

1H FY3/22 results by segment (before adjustments)

(¥mn)

Net sales	1H FY 3/21		1H FY 3/22		
	Result	% of sales	Result	% of sales	% change
Vehicle-related business	59,644	94.8%	65,996	95.9%	10.6%
New vehicle	-	-	33,591	48.8%	-
Used vehicle	-	-	13,809	20.1%	-
Maintenance	-	-	14,839	21.6%	-
Other	-	-	3,755	5.5%	-
Information systems-related business	3,141	5.0%	2,656	3.9%	-15.4%
Other businesses	161	0.3%	174	0.3%	8.1%

Segment profit	1H FY 3/21		1H FY 3/22		
	Result	Profit margin	Result	Profit margin	% change
Vehicle-related business	479	0.8%	1,717	2.6%	258.5%
Information systems-related business	99	3.2%	118	4.4%	19.2%
Other businesses	65	40.4%	67	38.5%	3.1%

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, there is a shortage in the supply of new vehicles, but even in this situation orders continue to be strong, particularly for the new models of the NOTE e-POWER and the KICKS e-POWER. The Company also worked to secure order numbers and earnings for the LEAF EV, the long-selling SERENA, and the subcompact cars DAYZ and ROOKS. Among the launches, the AURA, launched as the luxury version of NOTE attracted a new customer segment more interested in imported cars, and sales numbers have been stable, with the fine result of it becoming one of the top sellers. In the used vehicles business, the number of vehicles sold decreased due to the decline in trade-in vehicles, but market conditions are good and profits were maintained at the same level as in a typical year. In the maintenance business, the integration of the three sales companies has had an impact, but the Group worked to reduce SG&A expenses and achieved a major increase in segment profit. In the information systems-related business, net sales declined due to the delay in the timing of a large-scale project, but an increase in segment profit was still secured as results in the managed services business, which includes data centers, were strong.

Despite the vehicle supply shortage, orders are strong, including the popular new model ARIYA

4. FY3/22 results outlook

For the FY3/22 results outlook, the Company is forecasting net sales of ¥145,000mn (up 3.2% YoY), operating profit of ¥4,000mn (up 16.1%), ordinary profit of ¥3,500mn (up 12.9%), and profit attributable to owners of parent of ¥2,000mn (up 22.0%). The 2Q results were basically in line with the forecasts, so the initial forecast is unchanged.

FY3/22 results outlook

(¥mn)

	FY3/21		FY3/22		
	Result	% of sales	Forecast	% of sales	% change
Net sales	140,443	100.0%	145,000	100.0%	3.2%
Gross profit	32,302	23.0%	-	-	-
SG&A expenses	28,857	20.5%	-	-	-
Operating profit	3,445	2.5%	4,000	2.8%	16.1%
Ordinary profit	3,101	2.2%	3,500	2.4%	12.9%
Profit attributable to owners of parent	1,638	1.2%	2,000	1.4%	22.0%

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

Although progress has been made with the vaccination programs, the business environment can be said to be severe, as uncertainty about the economic future is coinciding with the vehicle supply shortage due to the semiconductor shortage. Therefore, although consumers' intent to purchase vehicles continues to trend upward, net sales are not forecast to reach the same level as in FY3/20, before the COVID-19 pandemic. For new vehicles sales, based on the NISSAN INTELLIGENT MOBILITY initiatives it is progressing, Nissan Motor plans to launch new models of EV and vehicles equipped with e-POWER, and in particular, expectations are extremely high for the ARIYA, which is Nissan Motor's first crossover EV. It is the vehicle that best expresses its NISSAN INTELLIGENT MOBILITY and that symbolizes "Nissan's technologies." It seems the ARIYA has the potential to further expand its customer groups that AURA has already expanded. The new models whose launch dates have not yet been determined were naturally not incorporated into the initial forecasts. However, the ARIYA Limited, which is a vehicle that will be sold only in Japan and for which online reservations* began in June 2021, is proving to be extremely popular, with 4,000 vehicles being reserved in only 10 days from the start of reservations. It is considered that to a certain extent these sales of new models can cover for the impact of the vehicle supply shortage. In profits, the Company's policy is to continue with value-added sales through proposal-based sales that are tailored to meet needs on the one hand, while on the other hand to utilize the effects of the integration – of increased efficiency, synergies, and scale merits – to improve convenience for the customer. The real effects of the integration are expected to appear in the medium-term, but in the case of the Company, as it continuously conducted consolidation since the time the integrated companies joined as a group, it seems that these effects are already starting to appear little by little even at the present time. Alongside the integration, it is progressing the strengthening of sales efficiency, such as through information dissemination via the Internet and SNS, and big data analyses, and therefore it plans to also allocate resources to DX for services.

* Although reservations are online only, customers are linked to a sales dealership.

The medium-term management plan

Continues to be the leading car dealership group in Tokyo

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, as represented by CASE. 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.

The impression is that the progress made in the medium-term management plan is slightly behind schedule due to COVID-19

2. Progress made in the medium-term management plan

Among the three targets, to implement even more thoroughly "best practices," the integration of the three sales companies, which had already achieved many results due to their collaborations, was completed in July. Therefore, it is expected that synergies and scale merits can be continuously obtained. To give one example, the integration has already made it possible to conduct optimal proposal-oriented sales based on the core concept of NISSAN INTELLIGENT MOBILITY to meet the trends of the times and customer needs have been made possible for across the Company as a whole. The aims are to maximize market share and earnings through growing sales of products for car owners' needs, appealing to customers for personal leasing P.O.P as a way of driving in a new era, growing sales of L2H* tailored to the EV era, and thoroughly conducting value-added sales.

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

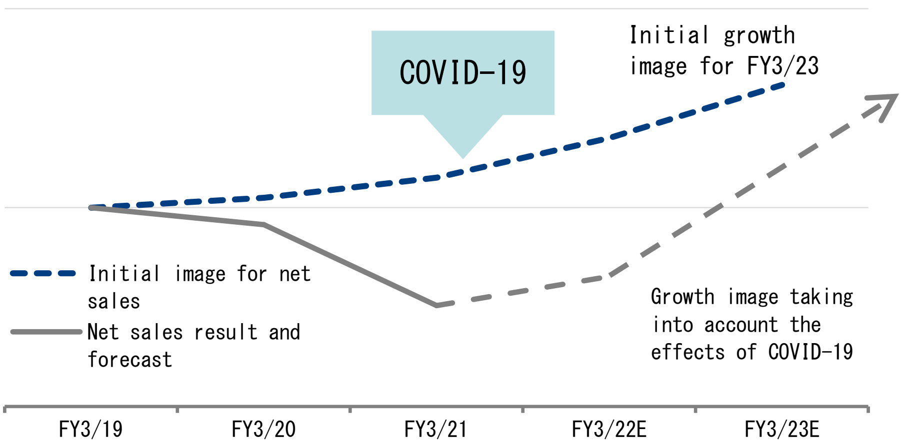
For measures to develop new sales styles and products and to expand scale through M&A. the impression is that the Company is slightly behind schedule due to COVID-19. To develop new sales styles and products, it plans to reform sales methods and to progress DX, including by utilizing big data, strengthening digital marketing, and introducing VR (virtual reality) systems thought to be best suited for vehicle promotions. However, this assumes the evolution of the Nissan Retail Concept dealerships (four dealerships as of May 2021) to existing dealerships. But because of COVID-19 and the fact that these dealership environments have long histories, it seems that the increased investment for this will take some time, including to increase floor spaces and to conduct scrap and build of existing dealerships. Also, for the measures to expand scale through M&A, 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 areas. However, it can be said that while the intentions of management for this are strong, it is unclear whether it can conduct M&A on a convenient timing that will generate synergies.

In the medium- to long-term, the forecast is that the Company will return to the growth trend it initially envisaged

3. Medium-term growth image

The Company formulated the medium-term management plan before COVID-19, so it has departed from the initial growth image due to the variable elements of COVID-19, including the semiconductor shortage. However, backed by its NISSAN INTELLIGENT MOBILITY, Nissan Motor is launching many new EV and models equipped with e-POWER, and it is promoting proactive management, including by realizing the practical application of advanced technologies like ProPILOT and e-4ORCE. Moreover, NISSAN INTELLIGENT MOBILITY is itself benefiting from the tailwind provided by such trends as abolishing gasoline vehicles. It seems that it will be necessary to revise the numerical targets in the medium-term management plan, of net sales of ¥175bn and operating profit of ¥5.5bn in FY3/23. But as COVID-19 can be considered only a temporary factor, it is not thought necessary to change the basic growth strategy. Therefore, in this case, in the medium- to long-term the Company is forecast to return to the growth trend that it envisaged.

Medium-term growth image



* The growth image from FY3/23 is that depicted by FISCO.
Source: Prepared by FISCO from the medium-term management plan

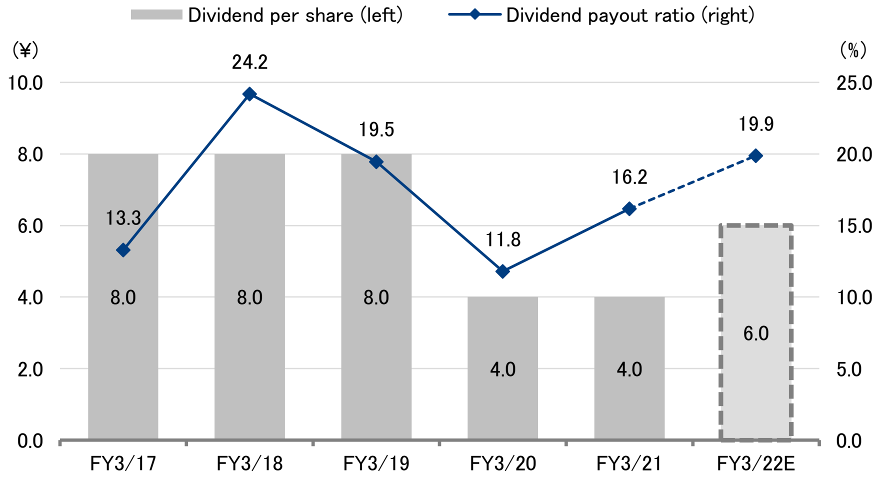
Shareholder return policy

Recovering from COVID-19 and plans to increase the dividend in FY3/22

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%. In FY3/22, in which results are expected to recover, it plans to increase the dividend by ¥2 per share for a period-end dividend of ¥6.

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 with a design of a popular car

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 investors 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

<第108期> <第109期>

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.

FISCO

Disclaimer

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