

Analyst Session for FY25 Q1 Financial Results

Q&A

Date/Time : July 30, 2025, 19:00-20:00

Speakers :

Ivan Espinosa, Representative Executive Officer, President & CEO

Jeremie Papin, Executive Officer, CFO

Questions and Answers

Question 1:

Could you please explain the reasons behind the difference between the initially announced first-quarter operating profit forecast of -200 billion yen in May and the actual result of -79.1 billion yen?

Answer1:

Papin

First, the -200 billion yen figure was a conservative estimate, reflecting uncertainties related to tariffs and some risks of supply chain disruptions at that time.

Regarding the factors that contributed to the better-than-expected results, we did not anticipate the impact of product warranty reserves. Additionally, the effects of tariffs, product mix, and cost reductions in marketing expenses turned out to be more favorable than initially projected.

Manufacturing costs also improved more than expected, resulting in savings on fixed costs.

There are also timing effects to consider. For example, R&D expenses in the first quarter decreased compared to the previous year, but we expect these expenses to increase in the second quarter. Overall, we anticipate that full-year R&D expenses will be roughly in line with, or slightly below, the previous year's level.

Question 2:

Regarding the situation in other regions, despite retail sales volume being approximately 90,000 units, there is a reported positive effect of 30 billion yen attributed to regional composition. Could you please elaborate on this?

Answer 2:

Papin

The positive impact from regional composition primarily originates from contributions in the Middle

East. When evaluated on a per-unit basis, the profitability in this region is quite significant, which has positively influenced the overall effect despite the sales volume.

Question 3:

Regarding the impact of tariffs amounting to 68.7 billion yen in the first quarter, how did this compare to your initial expectations? Additionally, with the tariff rate decreasing from 25% to 12.5%, what is your outlook for the full-year tariff impact?

Answer 3:

Papin

The tariff impact in the first quarter was approximately 5 to 6 billion yen lower than our initial projections. Our original estimate of a total gross tariff impact of around 450 billion yen—would now be a net tariff impact of a maximum 300 billion yen for the full year —based on a 15% tariff rate with Japan and considering potential other easing measures.

Question 4:

The impact of 68.7 billion yen from tariffs in the first quarter is reported as a gross figure. Could you please elaborate on what measures were taken to mitigate or recover from this impact?

Answer 4:

Espinosa

The 68.7bn is a net figure. One key measure was to focus on products that are not subject to tariffs. For example, we concentrated marketing efforts on U.S.-made models, which helped boost sales of vehicles like Pathfinder and Rogue, resulting in increased retail units compared to the previous year.

Another approach involved reducing production of models heavily affected by tariffs and that are not profitable. For instance, we scaled back manufacturing of vehicles produced in Mexico. Additionally, we have changed some component sourcing to lower-cost suppliers. By implementing these strategies, we have been able to mitigate the overall impact of tariffs.

Question 5:

Regarding the forecast of a 100 billion yen operating loss in the second quarter, how are tariff impacts incorporated into this outlook?

Answer 5:

Papin

In the 100bn projection for Q2, we expect that the tariff impact in the second quarter will be higher than in the first quarter, primarily because sales volumes in the U.S. are projected to increase compared to the previous quarter. Additionally, we are assuming a tariff rate of 25% in Japan for this period.

Question 6:

Is it correct to understand that the forecasted operating loss of 100 billion yen in the second quarter, based on a 25% tariff rate including Japan, does not account for any potential price increases?

Answer 6:

Papin

Yes, that is correct. The forecast assumes a 25% tariff rate, but it does not incorporate any benefits from potential price increases. We have not factored in any price adjustments to offset the tariff impacts at this point. We will execute on those as the competitive environment allows.

Question 7:

Could you share your outlook for the automotive business's free cash flow, particularly regarding the expectation of continued similar levels of negative free cash flow in the second quarter? Additionally, when considering the net cash position at the end of this fiscal year, is there a possibility that the net cash could temporarily fall below 1 trillion yen?

Answer 7:

Papin

Regarding free cash flow, we expect that contributions from profit and loss will slightly decrease in the upcoming quarter. Several new models are scheduled for launch this summer, some of which will be exported from Japan. As of the end of September, inventories may be higher than achieved at the end of June, which will impact cash flow in Q2. We also anticipate some increase in capital expenditures due to the new model launches. Given these factors, we expect these trends to continue from Q1 into Q2.

As for the net cash outlook, due to fluctuations in working capital, it's possible that the net cash position of the automotive division could temporarily fall below 1 trillion yen during the next quarters. However, we expect that by the end of the fiscal year, the net cash balance will recover and exceed 1 trillion yen.

Question 8:

While a forecast for the full-year operating profit has not been announced, the outlook for the first half has been provided. What are the main uncertainties affecting the full-year outlook?

Answer 8:

Papin

As I mentioned earlier regarding tariffs, the first uncertainty concerns Mexico. Since Mexico represents a significant exposure for us, clarity over the tariffs with Mexico is important. The second uncertainty relates to U.S. regulations. Our production within the U.S. allows us to benefit from various credits, but the specifics of these rules remain uncertain. How to account for those in the P&L and free cash flow are still being worked out. Finally, we are actively reviewing the tariff exposure of our supplier network. We are working closely with our suppliers to clarify this.

These three factors—Mexico's situation, U.S. producer credit / US content credit, and supplier tariff exposure—must be better understood before we can provide a comprehensive full-year forecast.

Question 9:

You have obtained a total funding of 860 billion yen, but the amount reported in this financial statement was between 400 billion and 600 billion yen. How should we understand this difference?

Answer9:

Papin

Initially, if the capital markets allow access under acceptable conditions, we intended to raise funds not only to cover the redemption in FY25 but also in FY26. Since there was sufficient investor demand, we proceeded with this broader funding approach. We have secured ample liquidity, and our automotive business's free cash flow is expected to reach breakeven next year. Therefore, at this time, we do not plan to raise additional funds through the capital markets.

Question 10:

The interest rate on our corporate bonds has been relatively high. Does this have any adverse effects on the automotive finance business?

Answer10:

Papin

In terms of costs, when converted into yen, the net interest rate is approximately 3.5% to just

under 4%. I believe this is within an acceptable range given our credit rating. Looking at the net interest expense increase, it should be about 10 billion yen compared to the previous year, which we consider reasonable given our current credit rating.

Additionally, I want to clarify that all bonds issued are by the automotive division itself. None are directly related to the automotive finance business. For funding the finance segment, we have increased the issuance of Asset-Backed Securities (ABS), which now accounts for 36% of our funding, up from 27% previously.

Question 11:

Last year, a significant special loss was recorded. How should we expect future costs to develop?

Answer 11:

Papin

In the first quarter, we recorded an impairment loss of 40 billion yen. This mainly relates to assets in Japan. Additionally, we booked approximately 10 billion yen in restructuring costs.

For the full year, we estimate impairment losses to total around 60 billion yen, while restructuring costs are expected to be approximately 100 billion yen.

In terms of cash outflows, we currently project restructuring costs to be about 100 billion yen.

Question 12:

I understand that reducing variable costs takes time to realize the full effect, but is there a possibility that the timeline could be accelerated?

Answer12:

Espinosa

Regarding variable costs, we currently have around 1,600 ideas in the implementation phase. Approximately two-thirds of these are expected to be realized by fiscal 2026, and we aim to achieve around 250 billion yen in cost reductions by that time.

For this fiscal year, we estimate the effect to be around 30 billion yen. We are actively working to accelerate these initiatives as much as possible.

Question 13:

Could you provide detailed information on North American production? Some models are being transferred from Mexico to the U.S., but will production of vehicles at the COMPAS plant also be moved to other facilities?

Answer13:

Espinosa

Today, we announced that CIVAC models will be transferred to the Aguascalientes plant. CIVAC has two production lines: one for passenger cars, which is scheduled to cease production this year, and another for pickups, which will also be transferred to Aguascalientes by the end of fiscal 2025. Regarding COMPAS, we have already decided to cease production of the QX50 and QX55 models by December 2025. We are currently discussing future plans, but nothing has been finalized yet. As for vehicles produced at the Smyrna plant, the utilization rate remains strong. U.S. retail sales (excluding rentals and fleet sales) are up 2% year-over-year and have increased 12% compared to the previous quarter. We expect this positive trend to continue, which should further improve the utilization rate at the Smyrna plant.

Question 14:

The domestic market plans to recover sales volume, but what is the current situation of the domestic sales environment?

Answer14:

Espinosa

We plan to refresh our kei cars in the second half of this year, which we believe will help restore domestic sales volume. Additionally, the new Leaf will be launched soon, and the Elgrand is scheduled for introduction.

Furthermore, we are running communication campaigns aimed at reversing the current negative sentiment among domestic customers and increasing customer engagement.

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