COMPANY RESEARCH AND ANALYSIS REPORT

Nissan Tokyo Sales Holdings Co., Ltd.

8291

Tokyo Stock Exchange Standard Market

1-Feb.-2024

FISCO Ltd. Analyst

Kimiteru Miyata

FISCO

FISCO Ltd.

https://www.fisco.co.jp

Index

Summary

FY3/24 operating profit expected to exceed medium-term management plan target

1. Delivers all car life services on a one-stop basis

Nissan Tokyo Sales Holdings Co., Ltd. <8291> (hereafter, also “the Company”) is a holding company whose subsidiaries include vehicle sales subsidiaries affiliated with Nissan Motor Corporation <7201>. Nissan Tokyo Sales Co., Ltd., a subsidiary under the Company’s umbrella, 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 close to 90% of the population of metropolitan Tokyo, and provides one-stop car life services as a frontrunner in the comprehensive mobility business*. In peripheral businesses within the Group, the Company, also conducts original businesses that do not rely on the Nissan brand.

* The mobility business encompasses services for facilitating smooth automotive travel and transport, in addition to sales and maintenance.

2. Demonstrates a competitive edge in serving as a frontrunner in the comprehensive mobility business

Against a backdrop of advancing technologies and environmental problems, the automotive industry is said to be in the midst of a major transition. In response, the Company has been a pioneer in EV sales, with industry-leading sales, service system and know-how, a recuring business with 350,000 customers, 110 new model dealerships including five Renault dealerships for a dealership network that dominates the active market of Tokyo. It has also demonstrated strength in best practices involving quickly sharing know-how and information and expanding it horizontally in the organization. Plus, it has led other companies in the mobility business with personal leases and rental cars. In particular, the Company has a high approximately 40% share of the Tokyo market in personal leases, whose merits are quick rebuying and securing quality used cars. In this way, the Company has a competitive advantage in the automotive industry as a frontrunner in comprehensive mobility that addresses the major transition the industry is going through.

3. Operating profit hits record high for a half; full-year operating profit and dividends upwardly revised

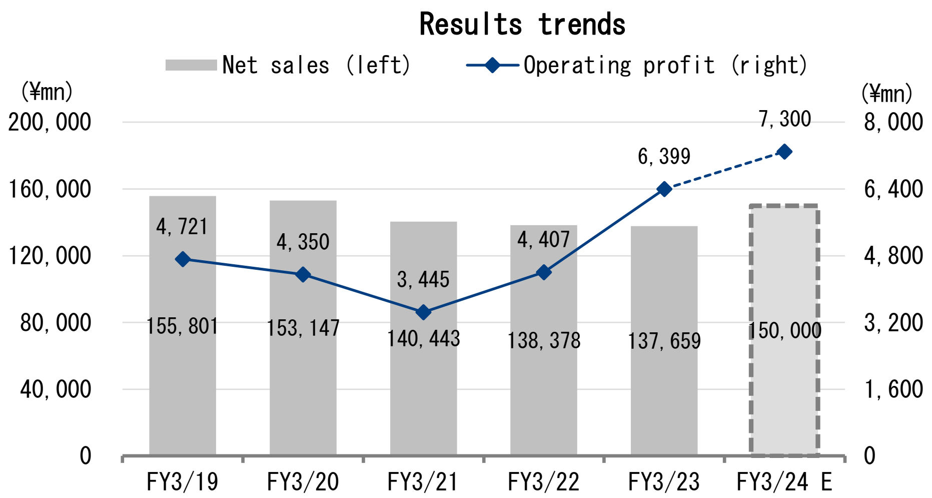
Results for FY3/24 1H were net sales of ¥74,358mn, up 11.5% year-on-year (YoY), and operating profit of ¥4,393mn, up 42.2%, which was record high profit for a half. The strong performance can be attributable to a major increase in sales of new models, centering on EVs, reducing advertising expenses, and continued synergies from the merger with Nissan Tokyo Sales. Regarding results forecasts for FY3/24, the Company is forecasting net sales of ¥150,000mn, an increase YoY of 9.0%, and operating profit of ¥7,300mn, an increase of 14.1%. Though said to be mitigated, the semiconductor shortage leading to cars in short supply and concerns over rising prices remain, but against the backdrop of a strong 1H, operating profit was upwardly revised by ¥1,300mn. Additionally, a gain on the sale of stock in subsidiaries will be recorded in extraordinary income, so the annual dividend will be raised ¥4 (including a special dividend of ¥2) to ¥19.

4. In the initial year of its medium-term management plan, expecting operating profit to exceed ¥6.5bn by the target year of FY3/27

FY3/24 is the first year of the medium-term management plan formulated in November 2022. As a quantitative target, it projected operating profit to exceed ¥6.5mn in four years. Targets have already been reached for electrified vehicle ratio, and even net sales, which is expected to be impacted by one subsidiary being excluded from consolidation in 2H, appears to be within range of achieving the forecast depending on new car sales, such as strong sales of EVs. This is the result of the Company responding to the major transition in the automotive industry by steadily and concretely carrying out its priority strategy of electrification leader, safe driving-support technology and the mobility business and its investment strategy to expand its sales network in line with its medium-term management plan. Going forward, it is thought that the Company will upgrade its medium-term management plan, but seeking even greater heights through execution of these strategies, achievement of quantitative targets other than just operating profit and of its investment plans can be expected.

Key Points

- Demonstrates a competitive edge in the automotive industry while serving as a frontrunner in the comprehensive mobility business
- Strengths: 350,000 customer base, best practices, dealership network
- Operating profit in FY3/24 at an all-time high and for the full year medium-term management plan targets expected to be exceeded



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

Company outline

Frontrunner in the comprehensive mobility business

1. Company outline

The Company is the holding company that supervises four consolidated subsidiaries, including Nissan Motor-affiliated auto-dealerships (Nissan Tokyo Sales) and three non-consolidated subsidiaries. The Company's subsidiary Nissan Tokyo Sales engages in the business of selling Nissan and Renault brand vehicles based in Tokyo, which is located in the center of Japan with a large population concentration. It boasts substantial scale as one of the largest dealerships among nationwide dealerships. It mainly sells cutting edge-vehicles, such as the EV of Nissan Motor and its group companies, and purchased parts. Its businesses also include trade-ins and sales of used vehicles and conducting vehicle body maintenance and mandatory vehicle inspections. It also provides customers with a full range of one-stop services related to car life, serving as a frontrunner in the comprehensive mobility business.

Strengthening the Nissan dealership business and increasing focus on it

2. History

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 (now TCS) 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 Nissan sales companies in July 2021, by which time the Group had entered a trajectory, to establish Nissan Tokyo Sales Co., Ltd. to further improve efficiency and scale merits, thereby forming the largest auto-dealership in Japan in both name and reality. The Company transferred all shares of TOKYO NISSAN COMPUTER SYSTEM in October 2023 to concentrate its limited management resources on mobility-related businesses.

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. 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 2021	Integrated the three Nissan-affiliated vehicle sales subsidiaries, established Nissan Tokyo Sales Co., Ltd.
April 2022	Listing was transferred to the TSE Prime Market
October 2023	All shares in TOKYO NISSAN COMPUTER SYSTEM (now TCS), a consolidated subsidiary, transferred to Canon Marketing Japan Inc.<8060> Listed on the TSE Standard market

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

Developing business in line with the CASE and MaaS trends

3. Trends in the automotive industry

Even with the turbulence in production and distribution caused by the COVID-19 pandemic and Ukraine situation subsiding, the automotive industry continues to face advancing technologies and the need to reduce CO_2 emissions. The CASE and MaaS trends are drawing attention for how they are causing a major transition in the automotive industry. CASE represents the IoT-ization of automobile (C: Connected), autonomous driving (A: Autonomous), the shift from ownership to sharing (S: Shared & Services), electric vehicles (E: Electric). This series of technologies is causing a major revolution in the automotive industry. At the same time, MaaS (Mobility as a Service) is based on the idea of mobility, which sees transportation itself as a service. It optimally combines means of transport, provides scheduling, contracting, and payment on a one-stop basis, and meets the transportation needs of each individual. It is thought to be one way the industry is adapting to the major transition.

In line with this major transition, EVs have spread rapidly in Europe and China, and in Japan the topic continues to be addressed, but the cars have not necessarily become widespread. The reason is that Nissan is about the only domestic automaker to enter the EV market in a full-fledged manner, and sales of EVs account for just around 2% of cars sold, a very small amount. For this reason, there has been a lack of motivation to increase charging stations, which is partly why consumers have been hesitant to buy an EV. Amid this environment, the Company from an early stage has worked to spread the e-POWER*1 electric vehicle and electrified vehicles*2 in general. IoT, which is said to have a strong affinity with electrified vehicles, is an advancing technology, and electric vehicles that incorporate technological evolutions such as Pro-PILOT driving-support technology demonstrate a competitive advantage in terms of advancement and the environment. Moreover, in response to MaaS, the Company is strengthening its mobility business with leases and rental cars. Of course, the Company is leading the charge in spreading EVs, so it has installed quick chargers at its dealerships that can be used by the EVs of other automakers as well. It continues to actively invest in infrastructure. In this way, the Company is more effectively utilizing this fertile ground to build a business system aligned with the CASE and MaaS trends and will likely reap the benefits of being in the lead when EV demand takes off in Japan.

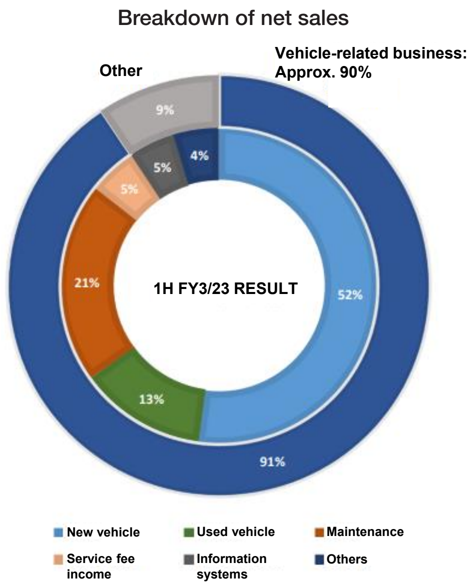
*1 e-POWER: Used only for generating engine power in Nissan's proprietary hybrid unit, it has the same driving feel as an EV.
*2 Electrified vehicles: Electric vehicles (EV), plug-in hybrid vehicles (PHEV, PHV), hybrid vehicles (HEV, HV), and fuel cell vehicles (FCEV, FCV). In the case of the Company, EV, e-POWER*1, and hybrid vehicles.

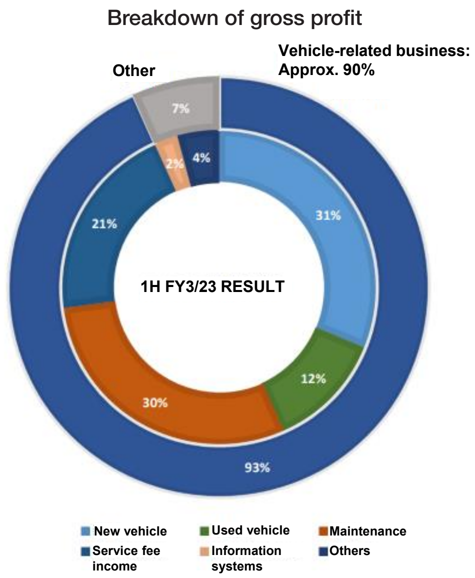
Business description

Sales centered on new vehicles; profits have a balanced earnings structure

1. Business description

The Company provides one-stop solutions with respect to car life services with a focus on electrified vehicles, and its business is divided into three business segments: the vehicle-related business, the information systems-related business (all shares sold in October 2023), and other businesses. The vehicle-related business is further subdivided into new vehicle sales, used vehicle sales, maintenance, and others. In 1H FY3/24, the vehicle-related business contributed the majority of net sales, of approximately 91%, while new vehicle sales constituted more than half of these sales. Meanwhile, the Company has seemingly achieved a favorable balance in terms of profit across the realms of new vehicles, used vehicles, maintenance, service fee income, information systems, and other domains. 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, e-POWER, e-4ORCE (a four-wheel control technology), and expanding installations of rapid chargers.





* 1H FY3/24
Source: Reprinted from the Company's financial results briefing materials

(1) The vehicle-related business

Nissan Tokyo Sales sells all the new models of Nissan Motor. Nissan Motor, whose supply of vehicles decelerated during the pandemic, continues to launch new models, which stimulate sales; new customers are also increasing. In connection with this, the Company is upgrading to a next-generation style of dealership called Nissan Retail Concept, which is aligned with diversifying customer expectations and lifestyles. Regarding Renault cars, there is a virtual company within Nissan Tokyo Sales dedicated to Renault cars and it manages five dealerships, taking pride in the fact that they are No. 1 in sales volume nationwide (according to a FY2022 Renault Japan survey). New car sales volumes have been flat at around 5.0mn cars nationwide against a backdrop of low birthrates and an aging and declining population, and a lower car ownership ratio. To grow as companies dealers raise the profitability of new car and used car sales through scale merits and consolidation and are being pressed by the need to develop unique strategies through growth drivers other than new and used cars.

(2) Personal leasing P.O.P

Personal car leases are an extremely convenient service for modern consumers who think of cars as things to use more than as things to own—it is a new sales format for new cars. Leading the way, the Company's personal car lease service called P.O.P already has a history of 25 years, and it boasts a large share of the Tokyo market at around 40%. Regarding P.O.P, which is characterized by no down payment, no hidden fees, and fixed prices, over 70% of customers change to a new vehicle in the third year. Normally the cycle for buying a new car is said to be 10 years. The repeater rate is also above 90%, so the Company has a business with very efficient sales. At the same time, the service becomes a source of high-quality used vehicles with ownership periods of less than half the average, which is another merit. Based on these characteristics of personal leases, currently various sectors have entered the personal lease market, not just automakers, so as the options for consumers broaden the market can be expected to be stimulated, which would be a tailwind for the Company's P.O.P service. In April 2023, it began personal leases for used cars as well.

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

Source: Reprinted from the website of the personal leasing P.O.P. brand

(3) Vehicle-related other than new vehicles

The Company sells new vehicles, handles trade-ins and sales of used vehicles, and otherwise provides services such as maintenance and mandatory vehicle inspections. It furthermore facilitates turnover of used vehicle sales through its sales of new vehicles, and has formed a stable value chain by amassing sales from maintenance and other recurring business. Trade-ins and sales of used vehicles constitute one pillar of the Company's earnings while simultaneously serving as a means of promoting new vehicle sales. Trade-ins are provided through Nissan Kauzo, a service managed by the Nissan dealership network including the Company, which offers trade-ins at high prices by eliminating the intermediary margin. For sales, it handles used vehicles that are certified by Nissan Motor at its Quality Shops after they clear the Company's strict service levels, and they are provided with a full warranty and after-sales services. Meanwhile, the Nissan Motor official used vehicles website enables shoppers to compare and review nearly 16,000 used vehicles.

Maintenance is conducted as one of the pillars of Nissan Tokyo Sales' recurring business, and the subsidiary 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. It has 7 service centers in Tokyo and 1 in Saitama that are 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 40,200 vehicles and have conducted body panel work and painting for a total of 18,000 vehicles (FY3/23). 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, and the selling points include 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.

It also conducts other businesses including a general insurance and life insurance agency business, a vehicle transportation and registration agency business, a dealership specialized in campervans that use a Nissan vehicle as the base vehicle, and real estate rentals, and diversifying to these businesses that are peripheral to vehicle sales is leading to increased Group synergies and acquisitions of a wide range of users.

(4) Information systems-related business

As a managed services company, TOKYO NISSAN COMPUTER SYSTEM (ownership stake of 53.89%), a core company in this business, provides auto dealers nationwide with support in the form of hardware and software, like the integrated management service ITte, as well as management, operation and monitoring of information assets like data centers for increased administrative efficiency and higher productivity. It will be discussed below, but in October 2023, the Company transferred all shares in TOKYO NISSAN COMPUTER SYSTEM.

Competitive edge in serving as a frontrunner in the comprehensive mobility business

2. Company strengths

The Company maintains a competitive edge in serving as a frontrunner in the comprehensive mobility business in this era of CASE technologies and MaaS. This competitive edge is underpinned by the Company's strengths particularly in terms of its position as a (1) pioneer in EV sales, its (2) recurring business with a customer base of 350,000 transactions, its (3) network of dealerships based in local communities, and its (4) best practices.

(1) Pioneer in EV sales

As a pioneer of EV sales, the Company maintains industry-leading EV sales and service systems through expertise accumulated over many years. In the domain of sales and leasing, the Company boasts a track record of sales exceeding 12,500 vehicles cumulatively over 13 years along with a full EV lineup that includes the LEAF, which was Japan's first mass-market EV, the Ariya sports utility vehicle, and the Sakura EV minicar. The Company also offers EV consultation that involves sales of EV chargers for the home and vehicle-to-home (V2H)* systems that make it possible to use electricity stored in EVs for household purposes. Its maintenance framework comprises a reliable maintenance system with about 700 Nissan EV certified maintenance engineers along with three EV heavy machinery maintenance plants through NT AUTO SERVICE. The Company has installed approximately 100 rapid vehicle chargers in urban locations, which also serve as an essential element of the EV infrastructure. The rapid chargers are available for use by anybody at all, 24 hours a day, 365 days a year and have a track record exceeding 20,000 charging sessions per month. The Company has also deployed 83 portable Power Mover emergency power supply devices for use in the event of disaster.

* V2H: Equipment that allows use of the power stored in a car battery at home.

(2) Recurring business with a customer base of 350,000 transactions

The Company achieves servicing volume amounting to approximately 700,000 vehicles annually, which is attributable to new and used vehicle sales. Through this, the Company has been developing its recurring business enlisting its customer base of 350,000 transactions. This includes personal leasing (approx. 10,000 vehicles owned), maintenance income-generating Maintenance Pack members (approx. 120,000 members), financial products (usage rate of approx. 50%), and insurance contracts (approx. 130,000 insurance contracts). The Company's consistent recurring revenue derived from transactions with its existing customers gives rise to a more robust earnings structure with an operating expenses coverage rate of approximately 90%.

(3) Network of dealerships based in local communities

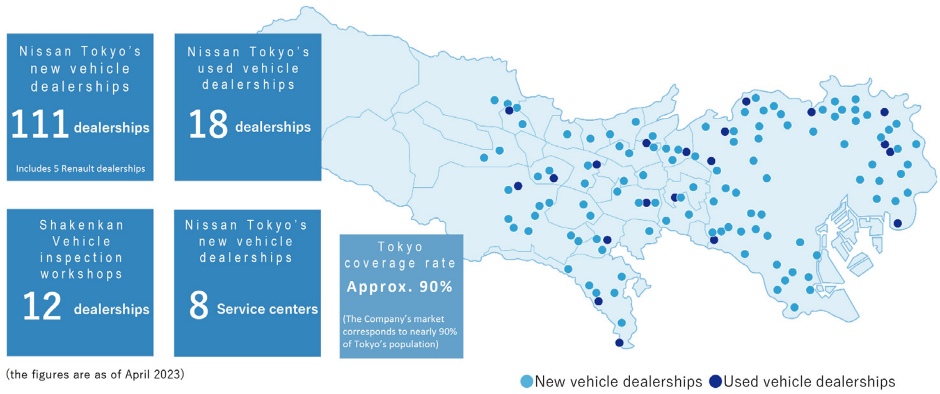
The Company's geographic coverage is the entire Tokyo metropolitan area, excluding the 8 wards of metropolitan Tokyo*, which covers approximately 90% of Tokyo's population of approximately 14mn people. The Company deploys its network with Tokyo as the dominant territory, through its operations encompassing 110 new vehicle dealerships (including 5 Renault dealerships), 18 used vehicle dealerships, 12 Shakenkan vehicle inspection workshops, and 8 NT AUTO service centers. In this way it provides substantial convenience to Tokyo consumers who wield significant purchasing capacity.

> * Incidentally, the eight wards, which are Chiyoda, Chuo, Minato, Shinjuku, Bunkyo, Taito, Shibuya and Toshima wards, correspond to metropolitan Tokyo's city center, and this area is slated for a business being developed by a Nissan Motor consolidated subsidiary, mainly for corporate demand.

(4) Best practices

Another of the Company's strengths is considered to be its best practices of the rapid sharing and horizontal development of expertise and information. The benefits generated by best practices that have been continuously conducted since the three Nissan sales companies joined the Group include increasing the hit rate of the Company's sales promotions and sales, improving its ability to propose products tailored to meet customer needs, and increasing the sales unit price per vehicle. These benefits are the reason why its auto-dealerships have a comparatively high operating profit margin even while being located in Tokyo, a high-cost area.

A network of dealerships based in local communities



Source: Reprinted from the Company's financial results briefing materials

Business trends

Volume and unit price both increase; operating profit a record high for the half

1. 1H FY3/24 results trends

Results for 1H FY3/24 were strong as profits exceeded initial forecasts and record half-year highs achieved with net sales of ¥74,358mn (up 11.5% YoY), operating profit of ¥4,393mn (up 42.2%), ordinary profit of ¥4,170mn (up 39.0%) and profit attributable to owners of parent of ¥2,443mn (up 32.5%).

1H FY3/24 results

(¥mn)

	1H FY3/23		1H FY3/24		
	Result	% of net sales	Result	% of net sales	% change
Net sales	66,681	100.0%	74,358	100.0%	11.5%
Gross profit	16,243	24.4%	18,134	24.4%	11.6%
SG&A expenses	13,152	19.7%	13,740	18.5%	4.5%
Operating profit	3,090	4.6%	4,393	5.9%	42.2%
Ordinary profit	3,001	4.5%	4,170	5.6%	39.0%
Profit attributable to owners of parent	1,844	2.8%	2,443	3.3%	32.5%

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

New car registration volume in 1H rose 15.7% YoY nationwide as the vehicle supply shortage caused by the semiconductor shortage subsided, and in Tokyo, the Company's market, it was an 18.9% increase. The Company increased new car registrations centering on electrified vehicles and the new Serena model, which won Technology Car of the Year, for growth of 8.2% (new car sales volume reflected in results was a 2.2% increase). In a normal year, the Company's growth rate tends to be higher than nationwide or Tokyo, but it was behind in this 1H because the semiconductor shortage was eliminated ahead of time last term, and orders for some vehicles, primarily popular electrified vehicles, were suspended in a few cases, which is thought to have an impact, and shows that registration volume is growing at a steady rate. As a result, the average unit price increased due to a high proportion of sales of high-priced vehicles like electrified vehicles, and service fee income increased in connection with the increase in registration volume. A portion of sales in March at the end of the last fiscal year were shifted to April in connection with Tokyo government subsidies, which resulted in a double-digit increase in net sales.

On the profit front, there was a rise in the average unit price and increase in service fee income related to the increases in sales volume, but the gross profit margin was flat as a reaction to the favorable market last year and rise in average unit price of used cars. Regarding SG&A expenses, strategic investment related to sales, both human resources and facilities, increased, but advertising expenses were reined in and synergies from merging the three companies continued, so growth was lower than the gross profit margin and the SG&A expenses ratio improved significantly. As a result, operating profit increased substantially and set a new record high. From ordinary profit down, commission expenses increased in non-operating expenses and a gain on revision of retirement benefit plan was recorded in connection with plan revisions, so while there were some twists and turns, a major increase in profit was achieved. Compared to the Company's initial forecasts, net sales were right in line, but operating profit came in ¥1.3bn above the projection. In addition, inventory increased 25.3%, but adjustments were made to have the same level as prior to the pandemic, and making customers wait due to suspending orders or delaying deliveries is being eliminated.

Serena, winner of both RJC Car of the Year and Technology Car of the Year

Source: Reprinted from the Nissan Motor website

EVs and other electrified vehicles continue their strong performance

2. Trends by segments

By segment, in the vehicle-related business, net sales were ¥70,562mn (up 10.6% YoY) and segment profit was ¥4,667mn (up 41.0%). Breaking down net sales, sales of new vehicles were ¥41,161mn (up 17.2%), used vehicles were ¥10,463mn (up 1.9%), and maintenance were ¥14,846mn (up 1.9%), and service fee income and other sales of ¥4,091mn (up 9.5%). In the information systems-related business, net sales were ¥3,599mn (up 34.6%) and segment profit was ¥187mn (up 7.3%). In real estate and others, net sales were ¥196mn (up 5.4%) and segment profit ¥81mn (up 8.0%).

1H FY3/24 results by segment (before adjustments)

(¥mn)

Net sales	1H FY3/23		1H FY3/24		
	Result	% of sales	Result	% of sales	% change
Vehicle-related business	63,821	95.7%	70,562	94.9%	10.6%
New vehicle	35,132	52.7%	41,161	55.4%	17.2%
Used vehicle	10,378	15.6%	10,463	14.1%	0.8%
Maintenance	14,573	21.9%	14,846	20.0%	1.9%
Other	3,736	5.6%	4,091	5.5%	9.5%
Information systems-related business	2,673	4.0%	3,599	4.8%	34.6%
Other businesses	186	0.3%	196	0.3%	5.4%

Segment profit	1H FY3/23		1H FY3/24		
	Result	Profit margin	Result	Profit margin	% change
Vehicle-related business	3,309	5.2%	4,667	6.6%	41.0%
Information systems-related business	202	7.6%	187	5.2%	7.3%
Other businesses	75	40.3%	81	41.3%	8.0%

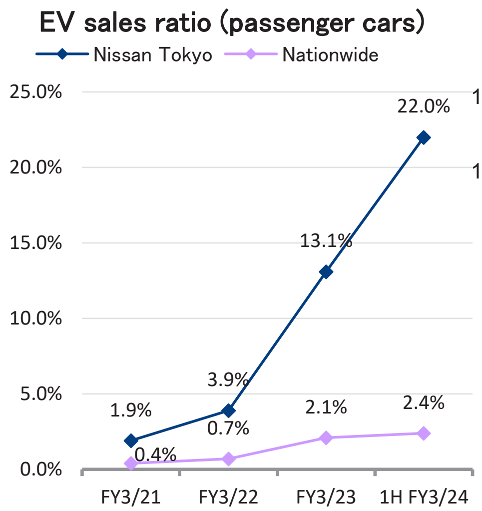
* Segment profit is operating profit
Source: Prepared by FISCO from the Company's financial results

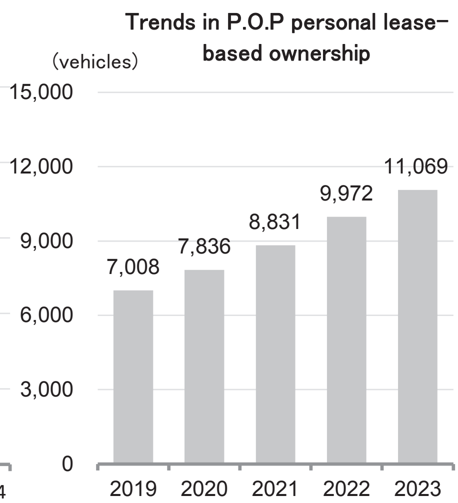
(1) Vehicle-related business (new vehicles)

Regarding new vehicles, the Sakura EV minicar continues to be highly regarded, and many orders came in for e-POWER vehicles like the new Serena, the Note, Note Aura, and X-Trail. As a result, there was slight growth in new vehicle sales volume. Considering there were lost opportunities from orders being suspended for some highly popular electrified cars in particular, sales volume was substantial. At the same time, sales of high-priced electrified cars went up, so the unit price per vehicle increased, which led to new car sales increasing by a substantial 17.2% YoY. With a powerful product lineup as backdrop, cumulative EV sales topped 10,000, and personal leases, in which the Company has a long history of over 25 years, exceeded 10,000 units as well. The Company will continue working to increase orders and expand earnings for electrified vehicles as the leader in this area.

Amid this, sales volumes of EVs (Ariya, LEAF, Sakura) more than doubled the previous year. The Company's EV sales ratio is extremely high at 22.0%, compared to the national average of 2.4%. However, one factor is that compared to Nissan Motor, its competitors have not focused much on EVs. The Company constantly displays EVs front and center and has taken such steps as signing agreements with local governments for emergency power sources during natural disasters. Along with Nissan Motor, the Company has continued to enlighten individual consumers (and also industry participants). In addition, its e-POWER vehicles have steadily increased as well. The Company's electrified vehicle sales ratio continues to be at a high level, 91.3%, compared to the national average of 50.2%. This difference can be seen as the fruit of not only the Company's efforts but the strength of its technologies. The proof is in how the new Serena won both the RJC Car of the Year award and the Technology Car of the Year award. The Company's electrified vehicles have been selected for awards for the third year running.

In addition, personal leases, an efficient way to sell new cars, have performed well. Leveraging its strength as a forerunner, one factor is how proposal-based sales have paid dividends through the sharing of best practices, one of the synergies of merging the three companies. The general public's understanding of personal leases may still be insufficient, but even so various sectors are getting involved and with services diversifying based on the age, service content, and distance travelled, the trend in society is toward personal leases and the market continues to expand.





* Trends in P.O.P personal lease-based ownership at the Company; in April of each year
Source: Prepared by FISCO from the Company's financial results briefing materials

(2) Vehicle-related business (other than new vehicles)

Sales of used cars edged up 0.8% YoY. Sales volume declined slightly, reflecting a shift to new cars having recovered from the semiconductor shortage. Regarding unit prices, the unit price per retail sale was higher than the previous year, but declined overall due to a decline in wholesale unit prices, which were high the previous year. For this reason, the Company continues to focus on highly profitable retail sales. Maintenance, which is always extremely stable, increased 1.9%, and service fee income from insurance and installment payments increased against the backdrop of the increase in new vehicles, as the “other” category increased by 9.5%.

Transfer of all shares in TOKYO NISSAN COMPUTER SYSTEM

3. Information systems-related business

With IT investment becoming active, the managed service business was solid, with net sales of ¥3,599mn, up 34.6% YoY, but due to cancellations of maintenance contracts, segment profit slipped 7.3% to ¥187mn. All shares in TOKYO NISSAN COMPUTER SYSTEM, listed on the TSE Standard market and the core subsidiary in the information systems-related business, were transferred. Having both the parent and its subsidiary listed encountered various problems, and to ensure it would be possible for the three companies to have an equal one-to-one-to-one relationship whereby management resources within the Group would be optimized and synergies expected between IT companies, the shares were transferred to Canon Marketing Japan Inc.<8060>, a subsidiary of Canon Inc. <7751>. The company was removed from the scope of consolidation on October 2, 2023 and delisted on October 30. An extraordinary gain is scheduled to be recorded in 3Q (partially in 2Q).

Raising skill levels, partnering with local communities

4. Topics

In 1H FY3/24, the Company enhanced human capital and strengthened activities aimed at promoting the spread of EVs. With regard to enhancing human capital, the Nissan Tokyo Sales Team placed third overall at the All Nissan Service Technical Contest 2023 and won an Outstanding Appraiser Award at the nationwide Used Car Appraisal Technique Contest. The Nissan Service Technical Contest is aimed at improving the technical and response capabilities of staff involved in maintenance at Nissan sales companies nationwide. It is a contest with history, dating back to 1966 and encompassing the entire nationwide Nissan Group. The Used Card Appraisal Technique Contest is a nationwide contest that tests appraisal technique for used cars. Nissan Tokyo Sales employees, representing Tokyo, put up a performance that could said to be at the pinnacle of 130,000 appraisers of all brands of cars nationwide.

Regarding the spread of EVs, the Company expanded its disaster collaboration agreement with local governments. It entered into agreements with local government and police departments to utilize EVs to respond to large-scale power outages during natural disasters. Using EVs lent by Nissan Tokyo Sales during power outages and portable power suppliers called Power Movers, which are available at around 80% of dealerships, a system was put in place to supply power to places like evacuation facilities. In addition, partnering with police departments, who are partners in disaster cooperation, the Company conducted a drill using an Ariya EV to supply power to traffic signals when the power was out.

New car sales higher than expected; full-year results forecast upwardly revised

5. FY3/24 results outlook

For the FY3/24 results outlook, the Company is forecasting net sales of ¥150,000mn (up 9.0% YoY), operating profit of ¥7,300mn (up 14.1%), ordinary profit of ¥7,000mn (up 14.9%), and profit attributable to owners of parent of ¥6,700mn (up 105.4%). Operating profit and ordinary profit had been projected to decrease due to vehicle supply shortages caused by the semiconductor shortage despite it being mitigated and to increased costs from higher prices, but by steadily carrying out the initiatives of the medium-term management plan, 1H results exceeded the Company's forecasts, and while incorporating the transfer of all shares in TOKYO NISSAN COMPUTER SYSTEM, the Company revised its forecasts upward to operating profit of ¥1,300mn, ordinary profit of ¥1,300mn, and profit attributable to owners of parent to ¥3,400mn when including the gain from sale of a subsidiary in 3Q. Net sales are in line with the initial forecast.

FY3/24 results outlook

(¥mn)

	FY3/23		FY3/24		
	Result	% of sales	Forecast	% of sales	% change
Net sales	137,659	100.0%	150,000	100.0%	9.0%
Gross profit	33,544	24.4%	-	-	-
SG&A expenses	27,145	19.7%	-	-	-
Operating profit	6,399	4.6%	7,300	4.9%	14.1%
Ordinary profit	6,090	4.4%	7,000	4.7%	14.9%
Profit attributable to owners of parent	3,261	2.4%	6,700	4.5%	105.4%

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

When it comes to used vehicles, sales volume is poised to increase in 2H in conjunction with the increase in new vehicle sales, but sales price per vehicle is likely to decline and level off. Meanwhile, results of maintenance services are forecast to remain on par with typical levels of the previous fiscal year. As such, car sales are expected to serve as the driver of net sales as they had done in 1H. Regarding new vehicles, the Company will work to expand sales of popular electrified vehicles, including the new e-POWER Serena, the EV Sakura, and the e-POWER X-Trail. It will also promote its advanced driving-support technologies and work to increase sales volume and bolster the unit price per sale. In addition, by thoroughly sharing best practices, it will strengthen proposals by adding personal leases to its menu of new vehicles. Moreover, leveraging personal lease know-how from new car sales, the Company also plans to introduce personal leases for used cars on a full-fledged basis. It is aiming for a personal lease ratio for new vehicles (passenger cars) of 28%, up three percentage points YoY. Regarding Nissan Retail Concept dealerships, the Company plans to upgrade one dealer, centering on a key dealership, and add a new dealership as well.

On the profit front, full-year forecasts were upwardly revised because profit beat the 1H forecast and in order to incorporate the removal of TOKYO NISSAN COMPUTER SYSTEM from the scope of consolidation. These are estimates with TOKYO NISSAN COMPUTER SYSTEM removed from consolidation. Sales of new vehicles in 2H are projected to be even with 1H and operating profit is also expected to mark time. However, with regard to operating profit in particular, like in 1H, operating expenses will continue to be incurred ahead of time, including personnel expenses and equipment expenses, so even if advertising expenses, which were reined in during 1H amid increasing competition, are used, the momentum of 1H sales, the fact that a portion of sales from last term in March were shifted to this term, and the expectation that synergies between the three companies will continue, the forecast is slightly conservative.

The medium-term management plan

Corporate philosophy and cherished values will drive promotion of the medium-term management plan

1. The corporate philosophy

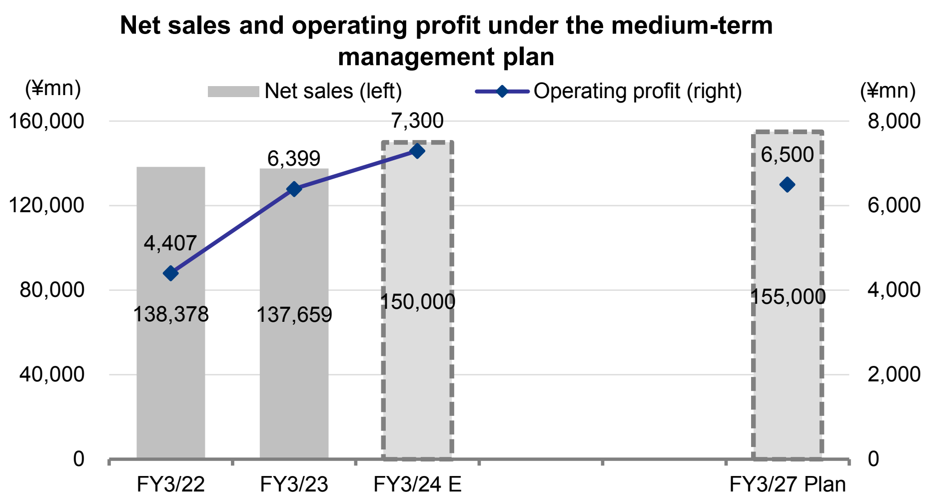
The Company has been encountering a rapidly changing business environment as the concepts of CASE technologies and MaaS gain increasingly widespread acceptance, amid developments that include increasing awareness across society as a whole regarding carbon neutrality, a shift in customer mindset regarding vehicles from that of ownership to that of car sharing and car leasing, a shift in the customer purchasing process from dealerships to online sales, Japan's declining population, and increasingly diverse work styles. With regards to this, the issues that the Company needs to tackle include those of contributing to realizing a carbon neutral society through more widespread use of EVs, conducting sales that utilize the Company's expertise in personal leasing and developing the mobility business so that it utilizes its dealership network and test drive vehicles, developing a network of dealerships that integrates physical and digital channels and that promotes brand experience, and improving work and management structures and with sights set on workstyle reforms and greater productivity.

In addition to resolving these issues, the Company has set a new corporate philosophy of "We will accelerate the evolution of mobility to open up a whole new era. We will keep moving forward toward a future full of smiles," in seeking to keep providing universal values encompassing the pleasure of movement and safe and comfortable driving. In looking toward achieving the objectives of such a corporate philosophy, the Company is focusing on eight values that consist of making customers smile, making fellow workers smile, teamwork, being professional, challenging ourselves, acting while thinking, co-existence with communities, and social responsibilities. Meanwhile, the Company seeks to engage in sustainable management practices from a long-term perspective by enlisting its approach of identifying and addressing the four materialities of responding to climate change, realizing a safe and secure society, respecting human rights and enhancing human capital, and contributing to local communities. The Company has formulated its four-year medium-term management plan (FY3/24 to FY3/27) to provide milestones with respect to steadily implementing such initiatives.

Is already within sight of operating profit target for FY3/27

2. The medium-term management plan

However, a number of targets in the medium-term management plan have already been achieved. Initially, the Company aimed first to return new vehicle sales volume to pre-pandemic levels and increase sales and profits in the dealer business, which is the Company's main business. It aimed to increase earnings from recurring business, and on the cost side, it planned to strengthen investment in human resources and digital while optimizing equipment expenses and other expenses to achieve by FY3/27 its medium-term financial targets of net sales of ¥15.50bn (¥13.76bn in FY3/23), operating profit of ¥6.5bn (¥6.3bn) and a dividend payout ratio of 30% or higher (30.5%). In addition, it is promoting carbon neutral initiatives as well, aiming to achieve its long-term non-financial target of maintaining a passenger vehicle electrification rate of at least 90% (92.3%) and reducing CO_2 emissions from EV sales by 16,000 tons. Among the medium-term financial targets, the target for operating profit is expected to be achieved in FY3/24 and the target for net sales will also be within reach. The target for electrification ratio has already been achieved. This is because performance from the FY3/23 to 1H FY3/24 was better than anticipated. Going forward, the medium-term management plan may be updated, but focus will be on quantitative targets for reaching higher heights, including other targets, investment plans, and priority strategies.



Source: Prepared by FISCO from the Company's medium-term management plan and briefing materials

Ramping up investment in existing areas and priority areas

3. The investment plan

To achieve the medium-term management plan, in addition to investing in existing areas, the Company is also more actively investing in its focus areas, and it plans to conduct total investment of ¥30bn over four years. Breaking down this amount, it intends to invest ¥25bn to update the network, to respond to the environment, and to rebuild the business portfolio in order to strength the existing businesses for sustainable growth; to invest ¥2bn to improve efficiency and productivity through IT, to diversify its businesses and to strengthen best practices for human resources and DX that will be the driving force behind reforms; and to invest ¥3bn in mobility-related, EV-peripheral businesses, and other businesses in order to expand its business areas by launching new businesses and through capital and business alliances. Through such investment, the Company plans to increase its earnings and achieve ROE (Return on Equity) of 7.0% in FY3/27. It will achieve this by updating the network, building customer touchpoints, and investing in efficiency improvements, as well as by conducting other initiatives, to increase the operating profit margin to 4.2% and to improve ROA (Return on Assets) to 3.4% through investments to increase earnings and by effectively utilizing assets (reducing unnecessary assets). By aiming to optimize the capital structure while securing financial stability, it plans to raise the D/E ratio to 0.26 times. However, considering that strong results and the further spread of EVs is a tailwind for the Company, the quantitative targets seem conservative, so the operating profit margin target should have perhaps been set higher. Also, if throughout the medium-term management plan profits come in above targets, the Company may move forward investment plans, make more aggressive investments, or return profits to shareholders.

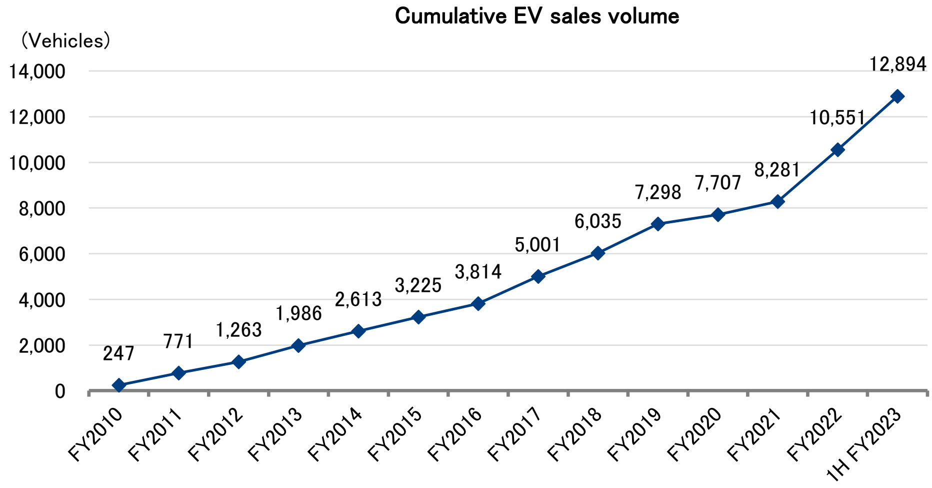
The priority strategies are to be an electrification leader, safety and driving-support technologies, and the mobility business

4. The medium-term management plan's priority strategies

The three priority strategies to be executed to achieve the quantitative and qualitative goals of the medium-term management plan are electrification leader, safety and driving-support technology, and the mobility business. With CASE as a major premise, the Company will expand sales of electrified vehicles and cars with safety and driving-support technologies and through its business directly contribute to society's sustainability.

(1) An electrification leader

An electrification leader means to utilize its strengths as a pioneer of EV and other electrified vehicles to spread around the world the excitement and emotions of driving electrified vehicles, and to contribute directly to the promotion of carbon neutrality. In Japan, despite the fact that there have been hardly any fully fledged entrants in the EV sector other than Nissan Motor, consumers' interest in EV is high. So the Company intends to utilize what it has accumulated in more than 13 years in this field, of EV sales expertise and systems, a complete lineup, a maintenance system and facilities, and an infrastructure (100 rapid charging stations), and it is aiming to achieve an electrified vehicles ratio of at least 90% (this can be revised upward) and annual EV sales of 10,000 vehicles. Therefore, the Company's policy is to actively sell EV, but as Nissan Motor is also planning to globally launch 15 new EV models in the 10 years to FY3/30, and it is forecast that sales will grow at an accelerated pace, it could already be said to be at the beginning of this phase. Also, by aiming to reduce CO_2 emissions by 16,000 tons through EV sales and building a network of dealerships that can respond to emergencies through providing an EV power supply and that use renewable energy, it intends to strengthen its direct contributions to the environment and to society.



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

(2) Safety and driving-support technologies

The Company's policy is to provide many customers with safety and security through its advanced driving-support technologies and to support customers' safety and security every day through its maintenance system that supports these driving-support technologies. Specifically, its dealerships utilize test drives, VR driving experiences, "e-share mobi" and other services to widen opportunities for customers to experience its advanced driver-support systems like Pro-PILOT. Also, it seems that it is introducing maintenance equipment toward acquisitions of specified maintenance system certification, further improving the technical skills of the maintenance engineers who are already skilled and experienced, and constructing an "electronic control system maintenance" structure that directly connects to customers' safe and secure car lives. Pro-PILOT has evolved from version 1.0 to version 2.0 which is able to change lanes on an expressway, as it is linked to the navigation system, and allow for driving without hands on the wheel. However, there are limitations; the driver must continuously monitor the situation.*

* For details refer to the website of the Company or Nissan Motor

(3) The mobility business

The Company's policy is to respond precisely to the trend of changing from owning to sharing by strengthening the mobility business. For personal leasing (P.O.P), which it started in 1997, it intends to improve the usage rate and retention rate by utilizing its expertise in personal leasing as best practices throughout the Group and appealing to customers for its benefits, which will promote vehicle replacements. As a result, through replacement purchases at an early stage with personal leasing (P.O.P), this business is expected to grow in the future and contribute to improving the Company's new vehicle sales. In the mobility business, the Company also increased the number of rental cars in operation as well as deployed rental cars in all its dealerships. Although the number is still small, the number of cars deployed in 1H FY03/24 was 1.4 times higher YoY, net sales were three times higher in the same period, and gross profit increased by 5 times. Additionally, the Company has expanded availability of its car sharing service "e-share mobi" which allows people to experience the latest technologies from Nissan Motor through the EV Sakara or e-POWER Serena for example. This service increases convenience for customers and expands touchpoints—people can test drive cars with the advanced driving-support technologies of Pro-PILOT 2.0 for instance, and through this gain a greater understanding of electrified vehicles.

5. Dealership network

Dealerships are the main touchpoint that provide exciting experiences from the first visit to taking delivery while accommodating diverse customer needs, so given the Company's priority strategies, it is safe to assume that it will be updating dealerships based on the Nissan Retail Concept and opening new dealerships as well. In FY3/23, it upgraded nine dealerships, in FY3/24 it plans to upgrade one dealership and open one new dealership, while in FY3/25 it is planning to open four new dealerships as it steadily carries out its plans. As a new touchpoint, the Company joined with Nissan Motor to run a demonstration experiment called the NISSAN HYPE LAB that created a virtual dealership in metaverse space that allowed participants to do everything from consider and select a Nissan Motor model and grade to take a test drive and contract for purchase (the service is no longer available). The project was intended to find new ways of selling vehicles using digital and metaverse technology. It may not be in the near future, but it has the possibility of being a major sales channel.

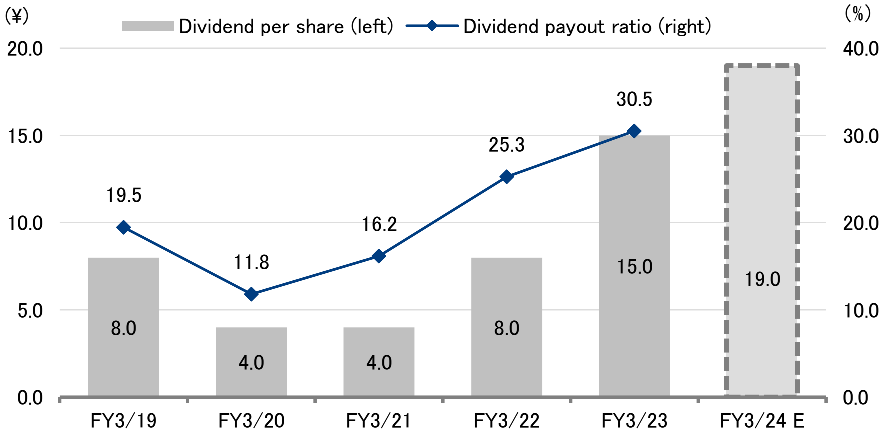
Shareholder return policy

This term planning to increase the annual dividend by ¥4 owing to strong results and recording extraordinary income

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. Accordingly, the Company has raised its interim dividend by ¥2 per share as 1H FY3/24 results exceeded the forecast. Moreover, as it expects to record extraordinary income in 3Q it has added a special dividend of ¥2 per share to the year-end dividend of ¥8 per share, so plans to pay an annual dividend of ¥19 per share for an increase of ¥4 (interim dividend ¥9, period-end dividend ¥10). The Company has left in place its target of maintaining a dividend payout ratio in the 30% range to strengthen shareholder returns, and assuming that sales in FY3/25 are as strong as they have been in FY3/24, can be expected to maintain an annual dividend of at least ¥19 per share.

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's 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

110th period | 111th period

Source: Preprinted from the Company's website

Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp