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Highlights of Major Automakers' Financial Results for Fiscal Year Ended March 2023

The following are Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended March 2023 (FY2022) and earnings forecasts for FY2023 of Japan's major automakers.

* Among major Japanese automakers, JCR assigns credit ratings to NISSAN MOTOR CO., LTD. ("NISSAN"; security code: 7201), ISUZU MOTORS LIMITED ("ISUZU"; 7202), TOYOTA MOTOR CORPORATION ("TOYOTA"; 7203) and Mazda Motor Corporation ("Mazda"; 7261).

Abbreviations:
HV: hybrid vehicle, PHV: plug-in hybrid vehicle, EV: electric vehicle, and CASE: connected, autonomous, shared and electric

1. Industry Trend

In FY2022, global new car sales by eight Japanese listed automakers, excluding HINO MOTORS, LTD. ("HINO"), a consolidated subsidiary of TOYOTA, stood at 22,456,000 units, down 0.1% year on year. In the intimal plan, the sales were expected to increase 6.9% year on year, but were flat compared to the previous period, affected by a semiconductor supply shortage and a lockdown in Shanghai. In the U.S. and Europe, overall demand including that for foreign automakers declined. In China, overall demand increased but Japanese automakers seem to have struggled due to a narrow range of EV models and other factors. For FY2023, the sales are projected to be 25,246,000 units, up 12.4% year on year. Although the semiconductor supply shortage is continuing, the situation is improving, and the production recovery in North America, Japan and other regions that have been subject to production constraints is expected to boost unit sales. While supply has not yet kept pace with demand in some regions in view of situations such as low-level dealer inventories and the longer delivery periods, there are also concerns about the impacts of rising interest rates worldwide and an economic slowdown.

Shifting to EVs is advancing against the background of CO_2 emission regulations and gasoline-powered vehicle regulations in each country. Six to seven years ago, the EV ratio in new car sales was widely predicted to be around 10% in 2030, but according to various researches, the ratio seems to have already risen to around 10% lately. In particular, China and Europe are driving the shift to EVs, and some estimate that the ratio in 2030 will be 30% or more. In March 2023, EU revised its initial proposal to disallow sales of all new internal-combustion-engine vehicles, allowing to sell of such cars that use synthetic fuels which are considered to produce no greenhouse gas emission, even after 2035. In the future, a variety of developments other than EVs are likely to proceed, but given many issues to address in each area, the development of zero-emission vehicles is expected to progress mainly in EVs in the medium term.

2. Financial Results

In FY2022 combined results of the aforementioned eight automakers, sales revenues increased 20.8% year on year, and operating income increased 7.8% year on year reaching approximately 5,145.6 billion yen (operating margin 6.2%). The high revenues growth rate was largely attributable to the impact of the yen's depreciation and the contribution of price revisions. In terms of profit and loss, there was large negative impact of raw materials price rises, which was covered by cost reductions, price revisions and the yen's depreciation effect. Looking at the factors behind the changes in income at TOYOTA and NISSAN, the negative impact of raw materials price rises and the positive impact of the weak yen were about 1.8 trillion yen and 1.5 trillion yen (sum for the two automakers), respectively. These factors' impacts are significant, accounting for above 50% and above 40% of FY2021 operating income, respectively.

Free cash flow in the automotive business was burdened by an increase in working capital due to raw materials price rises, but many automakers maintained positive free cash flow. As a result, the net cash amount for the automotive business excluding sales finance (the difference between liquidity on hand and interest-bearing debt; TOYOTA is based on total funds) at the end of FY2022 amounted to about 13 trillion yen (sum for TOYOTA, HONDA and NISSAN), and has been on the rise, bottoming out at around

9.9 trillion yen at the end of FY2019. It is a high level compared to around 1.7 trillion yen at the end of FY2008 after the global financial crisis. In FY2022, capital expenditures (total for the eight automakers) increased 22.6% year on year to a level comparable to the highest level in recent years, approximately 3.1 trillion yen, achieved in FY2007 and FY2018. For FY2023, the amount is forecast to expand 16.4% year on year, and JCR can observe an attitude of aggressively investing, such as response to CASE.

3. Highlights for Rating

For FY2023, sales revenues are planned to increase by 6.8% year on year, and operating income by 11.6% year on year to 5.74 trillion yen (operating margin 6.5%). As the automakers move to recover production, growing unit sales and price revisions are assumed to drive earnings, and the burden of raw materials price rises will likely decline from the previous fiscal year. However, attention should be paid to the risk of semiconductor shortage, the impact of exchange rate fluctuations, the effects of global interest rate rises and economic slowdown, and so forth.

Many Japanese automakers rely heavily on their U.S. operations for income. As profitability in the U.S. operations of some of the automakers have declined due to factors such as raw materials price rises, etc., JCR is paying attention to profitability improvement through price revisions and cost reductions. In the future, there are concerns that the cost burden will increase if the supply of new cars in the U.S. market normalizes and the incentive (sales promotion incentive) competition intensifies.

For Japanese automakers, given the current battery prices, the profitability of EVs is still inferior to that of internal-combustion-engine vehicles, therefore it is highly likely that the expansion of EV sales will lead to a decline in profitability. Some automakers will focus on cost reductions including batteries while making a shift to EVs at once. Some will aim to gradually develop/expand the sales of zero-emission vehicles while maintaining profitability with a diverse lineup including EVs, HVs and PHVs. What is important is whether automakers can keep profitability by working on cost competitiveness, including batteries, while complying with environmental regulations in the sales area.

As a buffer against various risks and deterioration in business performance, it is important to expand shareholders' equity and accumulate net cash in the automotive business. While responding to CASE, the burden of upfront investments may become heavier. Hence it is crucial whether the automakers can ensure a certain level of automotive free cash flow through efficient investments and improved development efficiency. The sales finance business is large in the U.S. JCR is eyeing on whether the automakers can maintain a certain profit margin while balancing sales competitiveness against rising market interest rates, in addition to the state of bad debt expense.

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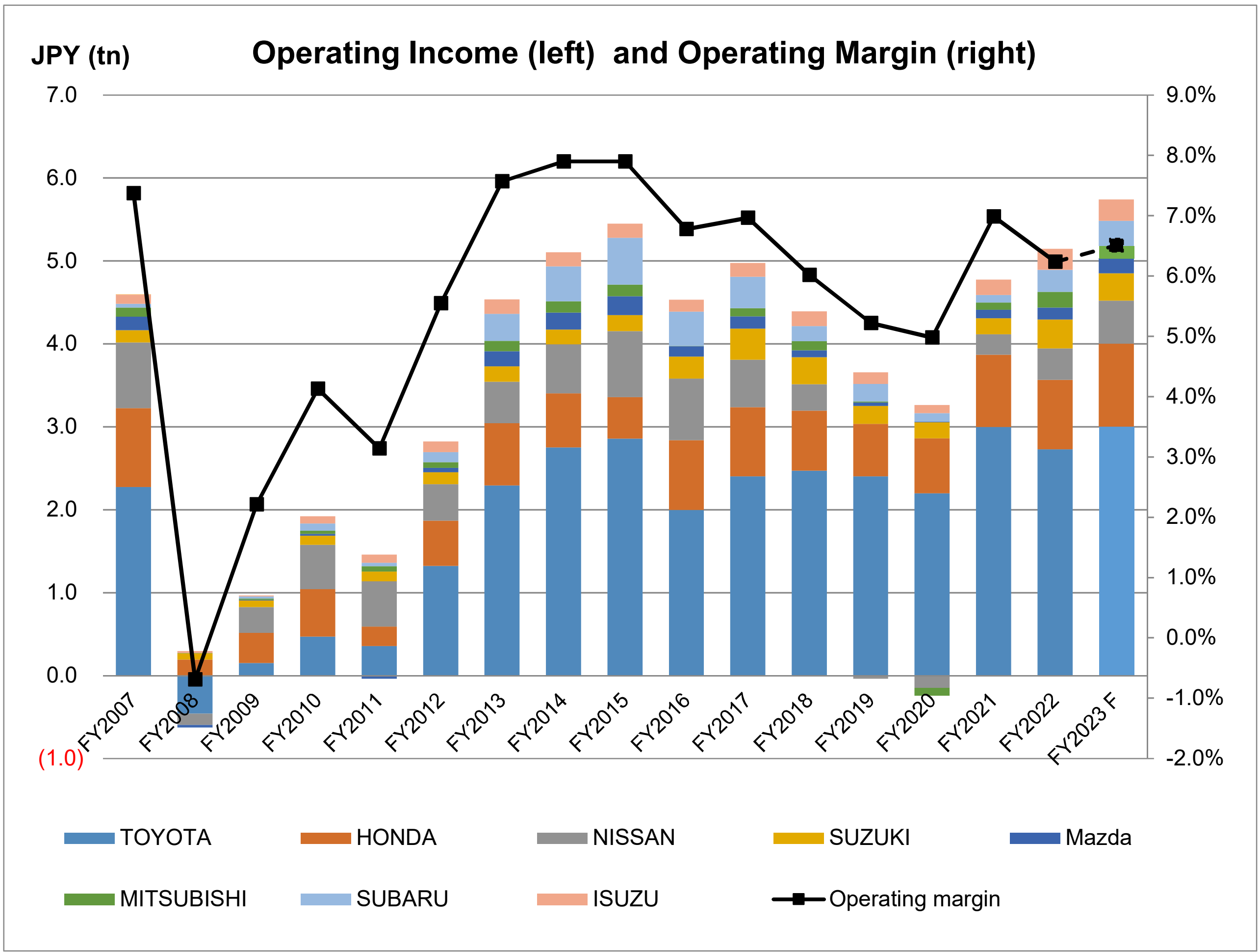
(Chart) Operating Income and Operating Margin of Listed Automakers



Note: For eight listed automakers excluding HINO. HINO's results are included in the consolidated results of TOYOTA.
(Source: Prepared by JCR based on financial materials of above automakers)

<Reference>
Issuer: NISSAN MOTOR CO., LTD.
Long-term Issuer Rating: A Outlook: Stable
Issuer: ISUZU MOTORS LIMITED
Long-term Issuer Rating: A+ Outlook: Stable
Issuer: TOYOTA MOTOR CORPORATION
Long-term Issuer Rating: AAA Outlook: Stable
Issuer: Mazda Motor Corporation
Long-term Issuer Rating: A- Outlook: Stable

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