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Highlights of Major Japanese Automakers' Financial Results for Fiscal Year Ended March 2021

The following is 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 2021 (FY2020) and earnings forecasts for FY2021 of major Japanese automakers*.

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

1. Industry Trend

Global new car sales decreased year on year for three years in a row for FY2020. According to the FY2020 financial reports of NISSAN MOTOR CO., LTD. ("NISSAN"), the growth rate of total demand for new cars was -10.2% worldwide for FY2020, and by major markets, -7.6% for Japan, -9.5% for the U.S., -16.2% for Europe and -3.6% for China (on a calendar year basis for China). For the first quarter, it significantly dropped due to suspension of operations at factories and dealer shops and other factors. However, after the second quarter, the recovery was clearly seen worldwide, and for the third quarter, it reached the level for the same period in the previous year. For FY2021, sense of uncertainty still remains due to impacts of prolongation of COVID-19 pandemic and supply shortage of semiconductors but the majority predicts a 10 to 15% increase from the previous fiscal year. Mixed results are seen in automakers for risk associated with a reduction in production volume caused by the supply shortage of semiconductors due to model mix, parts on hand, relationships with the semiconductor suppliers, etc.

Automakers are accelerating shifting to electric vehicles ("EV"). Restriction on emission volume of CO_2 will likely be becoming severe in the order of Europe, China and Japan/the U.S. toward 2030 with a reason behind that EV works well with EV connected systems, autonomous driving, etc. Some automakers successively announced their policy to entirely shift for their new car sales to EV and fuel cell vehicles ("FCV") by targeting 2035 or 2040 from the beginning of 2021. Taking full-scale measures for CASE (connected, autonomous, shared & services and electric) technologies including electrification of vehicles facilitates automakers to form alliances. In order to advance the measures taken for CASE technologies, TOYOTA MOTOR CORPORATION ("TOYOTA"), has been broadly building good relationships with Mazda Motor Corporation, SUBARU CORPORATION, SUZUKI MOTOR CORPORATION (SUZUKI), etc. In March 2021, it made an alliance with ISUZU MOTORS LIMITED to develop EV for small-sized trucks, etc.

2. Financial Results

Combined global new car sales of eight listed automakers (excluding HINO MOTORS, LTD. ("HINO") from nine listed companies; HINO's results are included in the consolidated results of TOYOTA) fell 13.9% over the year to 22,240,000 units for FY2020. Combined operating income of eight listed automakers decreased 16.6% on year to 3,013.3 billion yen. Combined operating margin, which has been stagnant since peaking out at 7.9% for FY2015, dropped to 5.0% for FY2020. Analysis of the factors contributing to changes in operating income shows that each company strived for reducing costs while factors causing the decrease were "volume and model mix" and "an impact of currency fluctuations". Degree of performance deterioration for each company seemed to depend on brand power, profitability of products and progress of cost reductions, and where a company which was already faced sluggish sales in the major markets including the U.S. before the outbreak of COVID-19, downward pressure on the performance was strong.

For the financial front, the top three companies' total net cash amount (a difference between ready liquidity and interest-bearing debt; based on liquid assets for TOYOTA) for the automotive segment excluding sales finance increased to approximately 10.7 trillion yen as of the end of FY2020 from approximately 9.9 trillion yen as of the end of FY2019. It is at a high level compared to that of FY2008 of approximately 1.7 trillion yen, after the collapse of Lehman Brothers. It seems that many companies saw their free cash flow of automotive segment dropped significantly in the first quarter of FY2020 and recovered in the second quarter and beyond in FY2020. Under the turmoil of COVID-19, each company carried out initiatives to increase liquidity on hand including procuring additional funds, setting commitment lines. The eight listed companies' combined capital expenditure (excluding HINO) was increasing until FY2018 after hitting the bottom in FY2009 but decreased 5.7% on year for FY2019 due to deteriorated earnings environment caused by US-China trade friction, and for FY2020, it decreased 14.3% on year as the companies held down investments that do not require urgency under the pandemic. For FY2021, combined capital expenditure for seven listed companies excluding SUZUKI, which has not disclosed its performance projection for FY2021, is expected to increase 8.9% on year. From the above, their intention to actively make investments including taking measures for CASE technologies, can be seen where the earnings environment improves.

3. Highlights for Rating

As for the combined performance forecast for FY2021 for the seven companies excluding SUZUKI, which has not disclosed its performance projection for FY2021, revenue to increase 14.4% from a year earlier, operating income to increase 28.6% from a year earlier to 3,625.0 billion yen, and operating margin to increase to 5.5%. Analysis of the factors contributing to changes in operating income shows that "volume and model mix" will be the major factor of the increase in operating income as a reaction of the impact of COVID-19 in the previous period. On the other hand, an impact of price hike of iron, precious metals, etc. will likely offset the cost improvement effect.

Combined global new car sales for seven companies for FY2021, excluding SUZUKI, which has not disclosed its performance projection for FY2021, is projected to increase 13.1% from a year earlier to 22,243,000 units. Recovery in new car sales may differ from company to company backed by an impact of supply shortage of semiconductors, measures taken for global environmental restrictions, establishment of supply system for popular models, progress in business structural reforms, etc. As for profits, JCR views that an improvement in profitability of the US business will be particularly important for performance recovery for many companies; therefore we will watch the trend.

While shifting to EV will likely advance toward 2035 and 2040, full scale penetration of hybrid vehicles ("HV") will progress on a global basis centering on Japanese automakers in next five years. Nevertheless, there are issues such as improving hybrid technologies, a fraudulence case of exhaust gas of diesel engines occurred in Europe and subsequent shifting to HV, preferential treatment of HV in China's new energy vehicle policy and infrastructure for charging electricity for EV. JCR will watch how the companies increase the sales volumes under the situation mentioned above.

Over the medium term, an increase in CASE technology-related investments and decline in profitability due to vehicle electrification, etc. are expected. These factors causing decline in income need to be covered by cost reduction and improved efficiency for development. For FY2020, each company drastically advanced fixed cost reductions under turmoil of the pandemic. It will be difficult to continue all the cost reduction measures for FY2021 and beyond; however, maintaining the strengthened cost structure will become important. Since profitability of EV is inferior to that of vehicles with combustion engines, JCR will watch the status of maintaining profitability including trend in battery prices.

Expansion of equity capital and accumulation of net cash amount of the automotive segment are important as buffers against various risk factors and deterioration in performance. While pursuing measures taken for CASE technologies, it is important whether the companies can maintain and strengthen the financial structure through increasing cash generation ability and efficient investments. JCR will watch the trends in free cash flow of the automotive segment and the net cash amount.

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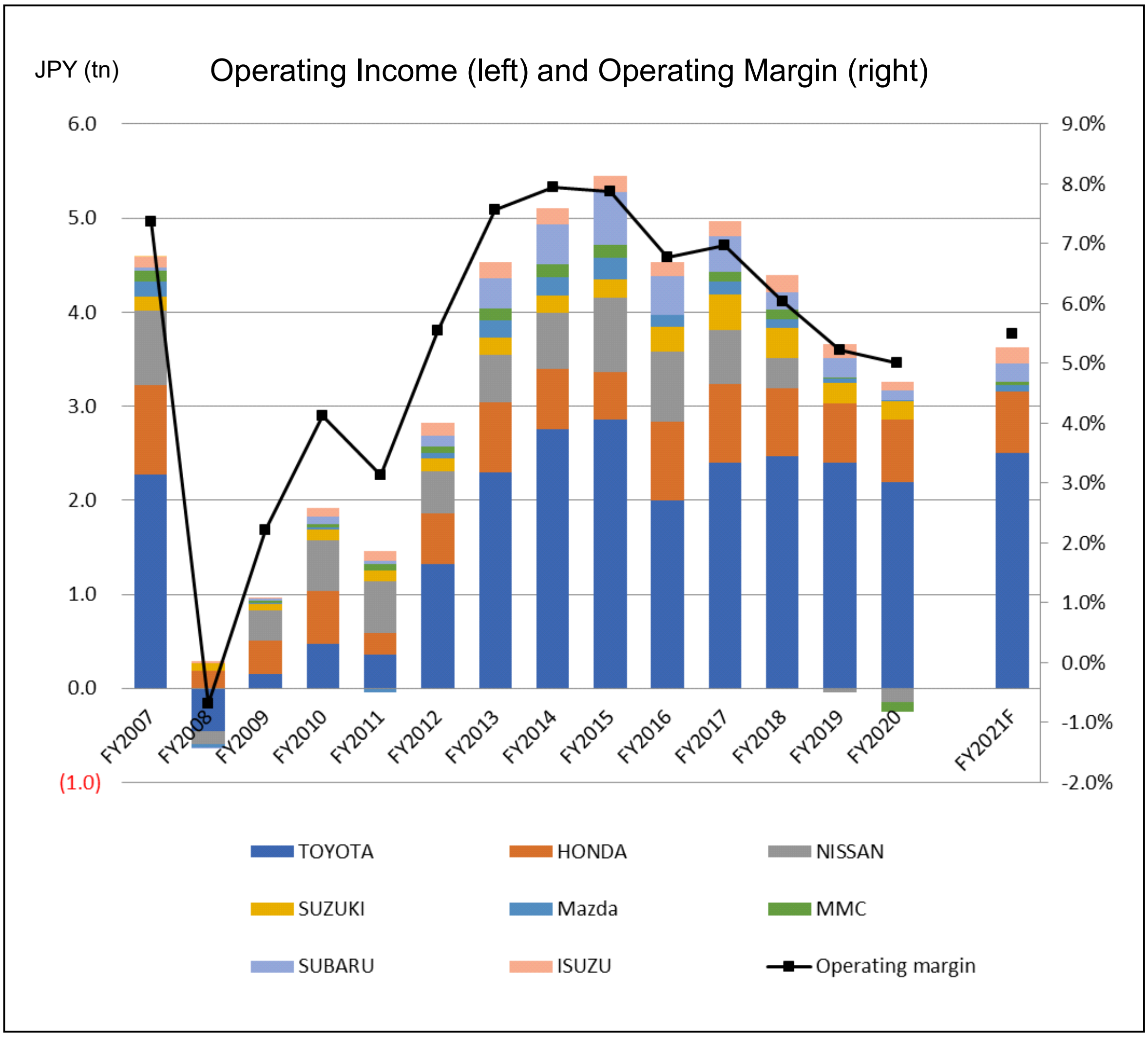
(Chart) Operating Income and Operating Margin of Automakers



(Source: Prepared by JCR based on financial materials of above companies)

Note: Combined result of eight companies up to FY2020 and combined earnings forecast for seven companies for FY2021 excluding SUZUKI.

<Reference>

Issuer: NISSAN MOTOR CO., LTD.

Long-term Issuer Rating: A Outlook: Negative

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: Negative

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