

Investment Memo: Nissan Motor Co., Ltd. (TSE: 7201)

Part 1: The Business Profile

Section 1: Executive Summary: The Overlooked Turnaround

Nissan Motor Co., Ltd. (Nissan) is often portrayed through a lens of past turmoil—a legacy automaker encumbered by a strained alliance, leadership crises, and a perceived lag in the global race towards electrification. The prevailing market narrative focuses on declining market share in critical regions, an aging product lineup, and deteriorating financial health, culminating in credit rating downgrades. This perspective, however, risks overlooking the substantive and strategic transformation underway since 2019. This memo presents a contrary view: Nissan is not a company in terminal decline but one in the midst of a rigorous, albeit challenging, operational and strategic turnaround.

The fundamental story of Nissan today is one of rediscovered discipline and rebalanced partnerships. The restructured Renault-Nissan-Mitsubishi Alliance, finalized in 2023, has untangled a historically complex and often contentious relationship, granting Nissan greater autonomy and paving the way for more agile, project-based collaborations. This revitalized partnership now functions less as a constraint and more as a competitive advantage, offering tangible leverage in technology development and cost savings that are difficult for standalone competitors to replicate.

Concurrently, the management team installed in 2019 has implemented the "Nissan NEXT" transformation plan, a strategic pivot away from the previous era's focus on chasing volume at any cost. This plan has instilled a new culture of financial discipline, prioritizing profitability per unit over sheer market share. Tangible evidence of this shift can be seen in improved net revenue per vehicle, a strengthened balance sheet, and a more rational approach to capital allocation. While recent operational headwinds, particularly in China and North America, have clouded the near-term financial picture, the underlying improvements in operational efficiency and strategic clarity remain intact. The market, fixated on past failures and current cyclical challenges, appears to be mispricing the long-term value being created by a more rational, resilient, and strategically focused Nissan.

Section 2: The Renault-Nissan-Mitsubishi Alliance: A Rebalanced Partnership

To understand the core economic engine of Nissan, one must first analyze its most significant and defining characteristic: the Renault-Nissan-Mitsubishi Alliance. For years, this 24-year-old partnership was a source of both strength and friction, but a landmark agreement revised in 2023 has fundamentally reshaped its structure, transforming it into what can now be considered Nissan's primary competitive advantage, or "moat."

Contextualizing the Transformation

The previous Alliance structure was characterized by a significant power imbalance. Renault Group held a much larger, controlling stake in Nissan, while Nissan's stake in Renault carried no voting rights. This asymmetry created governance challenges and strategic misalignments. The 2023 agreement was

designed to dismantle this old structure and rebuild the partnership on a foundation of equality and project-based cooperation.

Supporting Evidence: The New Framework

The most critical change is the rebalancing of the cross-shareholding structure.

- **Introduce:** The agreement established a new, equalized cross-shareholding of 15% between Renault Group and Nissan.
- **Contextualize:** To achieve this, Renault Group transferred 28.4% of its Nissan shares into a French trust. While Renault retains the economic rights (dividends and sales proceeds) to these shares, the voting rights are now exercised neutrally.
- **Support:** This change is pivotal because it allows Nissan to exercise the voting rights attached to its 15% shareholding in Renault. The voting rights for both companies are now capped at 15%, creating a partnership of equals.
- **Analyze:** This structural rebalance grants Nissan significantly more autonomy and a stronger voice in its own strategic direction. It resolves a long-standing point of contention and allows management to focus on operational execution without the overhang of governance disputes. The moat is widened because the Alliance can now operate more efficiently, focusing on mutual benefits rather than internal politics.
- **Connect:** This newfound strategic freedom is a prerequisite for the disciplined capital allocation and operational improvements seen under the "Nissan NEXT" plan, which will be discussed later.

From Theory to Practice: Joint Operational Projects

The rebalanced Alliance is not merely a financial restructuring; it is a catalyst for high-value joint operational projects designed to leverage the combined scale and expertise of the member companies.

- **Introduce:** The Alliance has launched tangible, high-value-creation projects in Latin America, India, and Europe.
- **Contextualize:** These projects move away from a standardized global approach to a more agile, project-driven cooperation model. This allows the partners to capitalize on regional strengths and make quicker decisions tailored to local market needs.
- **Support:**
 - **In Latin America:** Renault is developing a new half-ton pickup to be shared with Nissan, and the companies will continue collaborating on the existing one-ton pickup family.
 - **In India:** A significant joint investment of approximately US \$600 million will fund the development of new SUVs for both domestic and export markets, common A-segment electric vehicles (EVs), and a new Nissan vehicle based on the Renault Triber.
 - **In Europe:** Nissan has committed to invest up to €600 million in Ampere, Renault's EV & Software entity. This strategic investment gives Nissan access to a dedicated European EV platform and accelerates its product offerings in the region, while also fostering collaboration on charging infrastructure and after-sales services.

- **Analyze:** These projects provide a clear moat by generating cost savings and technological leverage that competitors cannot easily replicate. By sharing development costs for vehicles like the new pickups, pooling resources for EV platforms in India, and buying into a ready-made European EV ecosystem with Ampere, Nissan avoids billions in duplicative capital expenditures. The stated goal of generating "hundreds of millions in value" is credible, as these collaborations directly reduce R&D burdens and improve manufacturing efficiency.
- **Connect:** This operational leverage directly supports Nissan's financial health and its ability to invest in core technologies. The investment in Ampere, for instance, is a critical component of Nissan's European market strategy and its broader electrification roadmap.

The revitalized Renault-Nissan-Mitsubishi Alliance is the central pillar of Nissan's business. It has evolved from a source of strategic friction into a powerful competitive advantage that provides economies of scale, risk-sharing on major technological investments, and enhanced market access. This rebalanced partnership is the bedrock upon which Nissan's turnaround is being built.

Section 3: Market Position and Enduring Brand Value

While the restructured Alliance provides a powerful structural advantage, Nissan's success ultimately depends on its ability to compete in the marketplace. An examination of its market position reveals a company with durable pockets of brand strength in specific product segments and key geographic regions, even as it faces intense pressure from global mass-market rivals like Toyota, Honda, Volkswagen, and Hyundai. The primary challenge for Nissan is not an absence of brand value, but the inconsistency of its application across its portfolio and the erosion of that value through past strategic missteps.

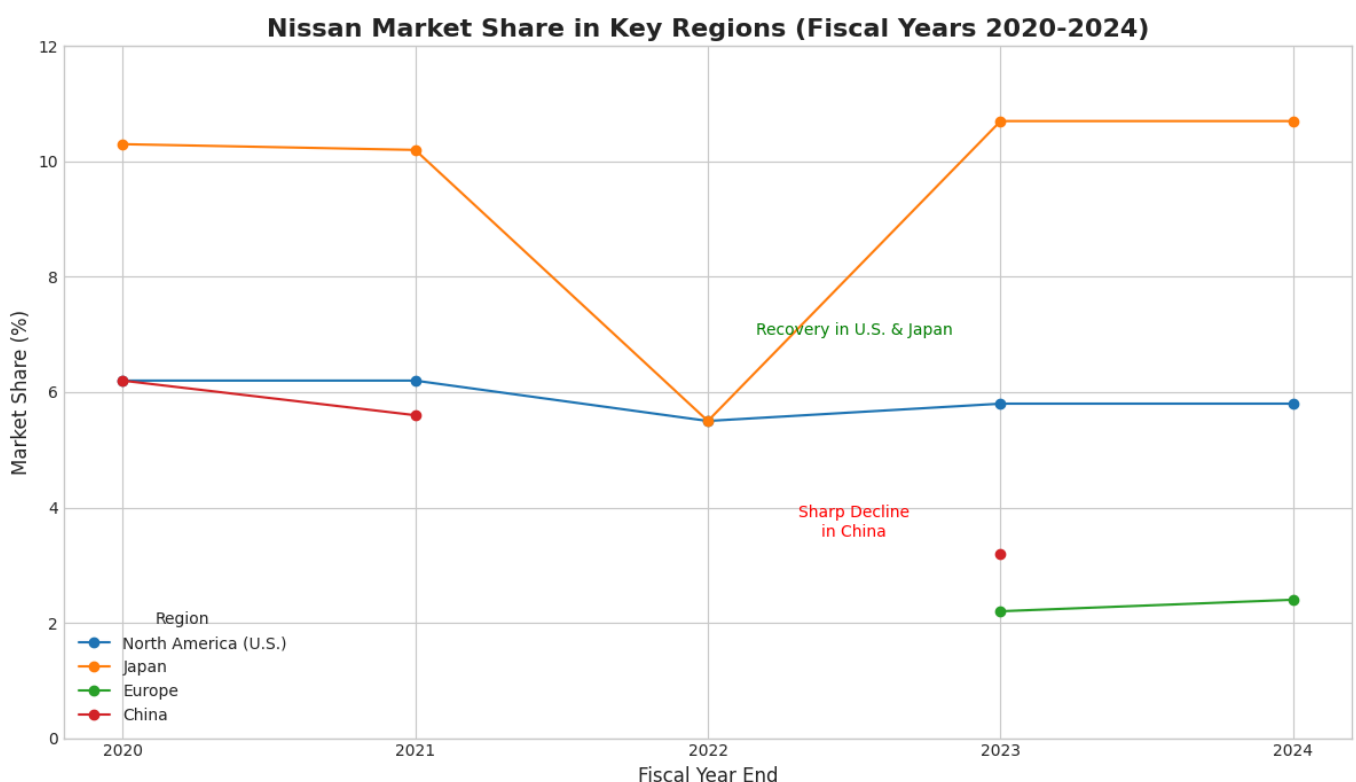
Geographic and Segmental Strongholds

Nissan's global presence is not uniform; its competitive standing varies significantly by region, highlighting both its strengths and weaknesses.

- **North America:** This remains a cornerstone market for Nissan. Despite overall market share fluctuations, certain models demonstrate enduring appeal.
 - **Introduce:** The Nissan Rogue (crossover), Sentra (sedan), and Altima (sedan) are consistently among the company's top-selling vehicles in the U.S.
 - **Contextualize:** The crossover and SUV segments are where Nissan has historically invested its brand equity. The Rogue, Pathfinder, and Kicks models form a competitive lineup that resonates with American consumers.
 - **Support:** In Fiscal Year 2023, retail sales in the U.S. grew by 20% to 916,000 units, with market share increasing to 5.8%. This growth was driven by strong sales of the Rogue (up 46%) and Sentra (up 41.6%).
 - **Analyze:** This data indicates that where Nissan offers modern, competitive products in popular segments, its brand can still command significant volume. However, this strength is undermined by other factors.
 - **Connect:** The need to support sales volumes in this competitive market has led to higher incentive spending, which can erode long-term brand equity and resale values, as will be discussed below.

- **Japan:** In its home market, Nissan enjoys a stronger and more diversified position, particularly in electrified vehicles.
 - **Introduce:** Nissan has established a leadership position in compact cars and electrified powertrains in Japan.
 - **Contextualize:** The e-POWER technology, a unique series-hybrid system, has been a major success, offering an EV-like driving experience without range anxiety. This has differentiated Nissan from competitors.
 - **Support:** In FY2023, the proportion of electrified sales in Japan rose to 52%. The Nissan Note was the best-selling non-Toyota model in the country, and the versatile Serena minivan also ranked in the top ten. The Sakura, an all-electric kei car, has also been a commercial success.
 - **Analyze:** Nissan's success in Japan demonstrates its capacity for innovation and its ability to capture market leadership in key technological segments. The e-POWER system is a significant brand asset that provides a tangible competitive advantage.
 - **Connect:** The success of e-POWER in Japan provides a blueprint for how Nissan can leverage this proprietary technology to strengthen its position in other markets, such as Europe.
- **China and Europe:** These markets present a more mixed picture. In China, the Sylphy model has been a long-time leader in the internal combustion engine (ICE) passenger vehicle segment, but sales have recently contracted sharply due to intense competition from domestic EV brands. In Europe, the Qashqai and X-Trail crossovers, particularly with e-POWER, are competitive, driving the region's electrification mix to 47% in FY2023.

The following chart illustrates the trend in Nissan's market share across its key regions over the past five fiscal years, showing recovery in North America, Japan, and Europe post-2022, but a sharp decline in China.



Evidence of a Shrinking Moat: Resale Value and Incentives

A critical measure of a brand's enduring value is the resale value of its products. In the automotive industry, this reflects the market's perception of quality, durability, and desirability. In this area, Nissan lags significantly behind its key Japanese competitors, Toyota and Honda.

- **Introduce:** Nissan's core models in North America consistently fail to win top resale value awards, in stark contrast to their direct competitors.
- **Contextualize:** Industry authorities like Kelley Blue Book (KBB) and J.D. Power annually recognize vehicles that retain the highest percentage of their original price over a 3- to 5-year period. These awards are a powerful indicator of long-term brand equity.
- **Support:** For the 2023, 2024, and 2025 model years, Toyota and Honda have been dominant. Toyota was named Best Resale Value Brand by KBB for eight of the last nine years. Models like the Toyota RAV4, Corolla, and Camry, and the Honda CR-V, Civic, and Accord are perennial segment winners. In contrast, none of Nissan's primary volume models—the Rogue, Sentra, or Altima—received comparable recognition.
- **Analyze:** This disparity in resale value is a significant competitive disadvantage. It means a Nissan customer's total cost of ownership is often higher than that of a Toyota or Honda owner, even if the initial purchase price is lower. This weakens brand loyalty and forces Nissan to compete more heavily on price. This points to a moat that, in this specific dimension, is shrinking relative to its peers.

This pricing pressure is visible in the data on incentive spending. To move inventory and compete, Nissan has historically relied more on discounts and rebates than its rivals.

- **Introduce:** Nissan's incentive spending per vehicle in the U.S. is consistently higher than that of Toyota and Honda.
- **Contextualize:** Incentive spending is the amount of money a manufacturer offers to dealers or customers to discount a vehicle's price. While a necessary market tool, consistently high spending can cheapen a brand's image.
- **Support:** In the October-December 2023 quarter, Nissan brand incentives in the U.S. averaged \$2,594 per vehicle. During the same period, Toyota and Honda maintained some of the lowest incentive levels in the industry. By December 2024, Nissan's incentives exceeded 13% of the average transaction price, while the industry average was closer to 8%.
- **Analyze:** This reliance on incentives is a direct consequence of weaker perceived brand value and resale value. It is a necessary but costly tactic to maintain market share in the short term, but it reinforces a cycle of lower transaction prices and diminished brand prestige over the long term.

In conclusion, Nissan's market position is a tale of two realities. The company possesses strong, competitive products and technology in certain segments and regions, demonstrating that its brand value is far from extinguished. However, this is counterbalanced by a clear and persistent gap in perceived quality and long-term value when compared to the top tier of mass-market automakers, forcing a greater reliance on price-based competition. The key to widening its moat lies in translating the success of its strongest products (like e-POWER models) across its entire portfolio to command better pricing power and earn stronger brand loyalty.

Section 4: Management and Capital Allocation Since 2019

The arrival of a new leadership team in 2019 marked a definitive turning point for Nissan. Faced with the fallout from the Carlos Ghosn scandal and deteriorating financial performance, the new management, led by CEO Makoto Uchida, initiated the "Nissan NEXT" transformation plan. An evaluation of their capital allocation decisions since this plan began reveals a clear and rational shift away from the previous era's undisciplined pursuit of global scale. The current management team is acting like prudent, long-term business owners, focusing on strengthening the balance sheet, investing in core technologies, and delivering sustainable shareholder returns.

The "Nissan NEXT" Plan: A New Philosophy

The "Nissan NEXT" plan, a four-year program launched in 2020, was an explicit rejection of the past.

- **Introduce:** The plan's primary objective was to shift Nissan's focus from excessive sales expansion to sustainable growth and profitability.
- **Contextualize:** This represented a fundamental change in corporate philosophy. Instead of chasing a specific market share percentage at any cost, the goal was to improve the quality of sales and maximize net revenue per unit.
- **Support:** The plan's KPIs were telling: achieve a 5% operating profit margin and a 6% global market share, but do so while reducing fixed costs by ¥300 billion, rightsizing global production capacity by 20% to 5.4 million units, and rationalizing the global product lineup from 69 to fewer than 55 models.
- **Analyze:** These goals demonstrate a management team focused on operational efficiency and profitability, not vanity metrics. Shutting down unprofitable plants (like the Barcelona facility) and exiting non-core markets (South Korea) are difficult but necessary decisions that a rational owner would make to ensure the long-term health of the business. Management successfully exceeded its fixed cost reduction target, cutting ¥350 billion.
- **Connect:** This new operational discipline is the foundation for all subsequent capital allocation decisions. A leaner cost structure and more profitable sales mix generate the cash flow necessary for R&D investment and shareholder returns.

Capital Allocation in Practice: A Disciplined Approach

The post-2019 capital allocation strategy can be broken down into three key areas: reinvestment, shareholder returns, and balance sheet management.

1. **Reinvestment in Core Technologies:** Management has prioritized investment in Nissan's future, particularly in electrification.
 - **Introduce:** R&D spending has been robust and focused on key areas of competitive advantage.
 - **Contextualize:** Rather than spreading resources thinly, investments are being channeled into proprietary technologies like e-POWER and next-generation battery technology, which management believes will drive future growth.
 - **Support:** R&D expenditures have steadily increased under the new plan, rising from ¥486.1 billion in FY2021 to ¥609.9 billion in FY2023. A key part of Nissan's "Ambition 2030" vision is a planned 2 trillion yen investment over five years into electrification, including the goal of

launching an EV with in-house developed all-solid-state batteries (ASSBs) by fiscal year 2028. A pilot production line for ASSBs is already operational at the Yokohama plant.

- **Analyze:** This focused R&D spending demonstrates a long-term vision. ASSBs are a potential game-changer in the EV industry, promising higher energy density, faster charging, and lower costs. By investing heavily in this technology now, management is aiming to secure a significant competitive advantage in the future, behaving like owners planting trees for the next generation.

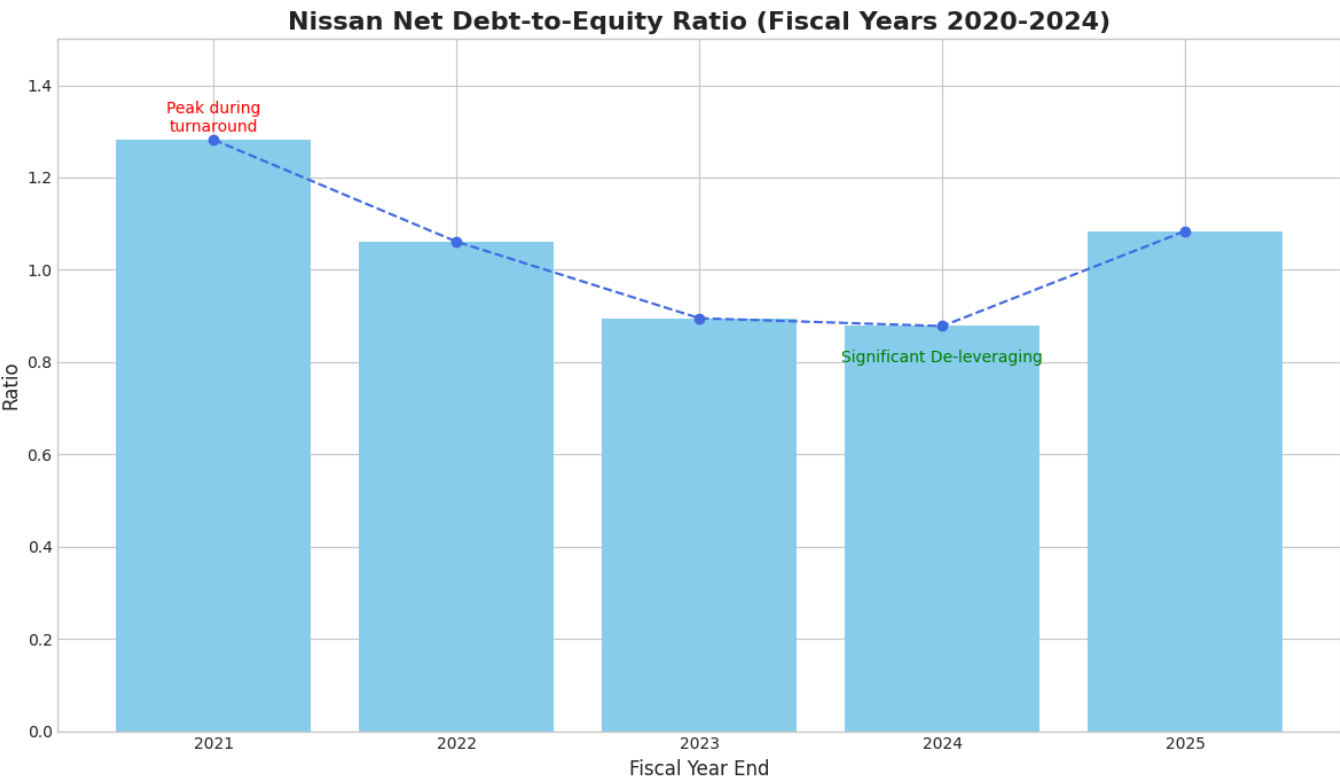
2. **A Rational Shareholder Return Policy:** The handling of dividends and buybacks reflects a conservative and performance-driven approach.

- **Introduce:** Management suspended dividends during the most difficult phase of the turnaround and has since reinstated them based on clear, transparent financial criteria.
- **Contextualize:** The dividend was cut to zero in FY2020 and FY2021 as the company focused on preserving cash. This was a prudent move to ensure financial stability.
- **Support:** Dividends were reinstated with a modest ¥5 per share in FY2021 and have grown as financial performance improved, reaching a proposed ¥20 per share in FY2023. CEO Makoto Uchida explicitly stated the conditions for paying dividends: "positive operating income, net income, and free cash flow from our automotive business, along with maintaining a healthy net cash position." When automotive free cash flow was negative in a recent quarter, the interim dividend was correctly withheld.
- **Analyze:** This policy demonstrates alignment with shareholder interests. It avoids the trap of paying an unsustainable dividend to appease the market in the short term, instead linking returns directly to the underlying financial health of the business.
- **Connect:** This prudent dividend policy complements the strategic share buybacks conducted as part of the Alliance restructuring.

3. **Strengthening the Balance Sheet and Improving Capital Efficiency:** The most significant recent capital allocation decision was the share buyback from Renault.

- **Introduce:** In late 2023 and early 2024, Nissan executed multiple share buybacks to acquire its own stock from Renault.
- **Contextualize:** These buybacks were enabled by the rebalanced Alliance agreement, which allows Renault to sell down its stake.
- **Support:** For example, in December 2023, Nissan acquired 211 million of its shares from Renault for approximately ¥120 billion. The stated purpose was to "improve capital efficiency by lowering net assets and increasing earnings per share." CEO Uchida confirmed the rationale: "given that our stock price was low, we opted to repurchase it."
- **Analyze:** This is a hallmark of rational capital allocation. Management identified that its shares were trading at a low price and used company cash to execute an accretive buyback that directly benefits remaining shareholders by increasing their ownership percentage and boosting EPS. It is a clear signal that management believes the company's stock is undervalued. This action, coupled with an improving debt profile, shows a strong focus on building a resilient financial foundation.

The following chart illustrates the trend in Nissan's net debt-to-equity ratio, a key metric of balance sheet health. It shows a significant improvement from the peak in FY2020, demonstrating management's successful efforts to de-leverage the company.



In summary, the management team post-2019 has demonstrated a clear, rational, and owner-aligned approach to capital allocation. They have prioritized profitability over volume, invested strategically in future technologies, managed shareholder returns responsibly, and strengthened the company's financial foundation. While external challenges have impacted recent results, the strategic direction and financial discipline they have implemented are creating a more resilient and valuable enterprise for the long term.

Part 2: The Investment Thesis

Section 5: Core Insight: The Market's Focus on Past Failures

The central variant perception of this thesis is that the market is excessively focused on Nissan's historical failures and current cyclical headwinds, thereby undervaluing the profound and sustainable improvements in its operational profitability and strategic clarity. The prevailing narrative, as identified in analyst reports and financial news, is that of a struggling legacy automaker that has fallen permanently behind competitors. This narrative is anchored in justifiable concerns: the lingering shadow of the Ghosn scandal, recent sharp sales declines in China, a perceived lag in electrification, and a brand image cheapened by years of heavy discounting.

While these concerns are valid, they are backward-looking. The market is mispricing the impact of two critical, forward-looking factors: the fundamental restructuring of the Alliance and the cultural shift instilled by the "Nissan NEXT" plan.

Tangible Evidence the Market is Overlooking

- **Improved Profitability per Unit:** The market fixates on declining sales volume in certain regions but overlooks the dramatic improvement in the quality of those sales.
 - **Introduce:** The "Nissan NEXT" plan's shift from volume to value has resulted in a significant increase in net revenue per vehicle sold.
 - **Contextualize:** In the past, Nissan chased market share by pushing sales into low-margin channels like rental fleets. The new strategy prioritizes retail sales and profitable segments.
 - **Support:** A calculation of Nissan's consolidated net revenue divided by its global sales volume shows a clear upward trend. In Fiscal Year 2021, the net revenue per unit was approximately ¥2.17 million. By Fiscal Year 2024, despite lower volumes, this figure had risen to approximately ¥3.77 million. This is a direct result of improved product mix and pricing discipline.
 - **Analyze:** This 73% increase in revenue per unit over three years is a powerful indicator of enhanced earning power that is not reflected in a stock price punished for volume declines. It shows that the core automotive business is fundamentally healthier and more profitable than it was in the era of higher sales.
- **A De-Risked and More Advantageous Alliance:** The market continues to view the Alliance with skepticism, associating it with past governance conflicts.
 - **Introduce:** The rebalanced 2023 Alliance agreement has transformed the partnership from a strategic liability into a tangible financial asset.
 - **Contextualize:** The new 15% cross-shareholding structure with reciprocal voting rights has eliminated the previous power imbalance, giving Nissan full control of its own destiny.
 - **Support:** The joint projects in India (US \$600M investment), Europe (up to €600M in Ampere), and Latin America are concrete examples of value-creating cooperation. These initiatives allow Nissan to share massive R&D and capital expenditure burdens, directly boosting its return on invested capital.
 - **Analyze:** The market is not fully pricing in the "cost avoidance" moat this new structure provides. By leveraging Renault's Ampere platform in Europe, for example, Nissan can bring competitive EVs to market faster and at a fraction of the cost of developing its own from scratch. This strategic agility and capital efficiency are deeply undervalued.

The market's narrative is anchored to the Nissan of 2018. It sees the sales slump in China and delays in U.S. EV launches as confirmation of its bearish thesis. The variant perception is that these are not signs of a broken company, but rather the painful but necessary side effects of a deep, systemic turnaround. Management is consciously choosing to rationalize unprofitable operations (closing plants in China) and enhance product competitiveness (delaying EVs) rather than repeating the old mistakes of chasing volume and rushing products to market. The market sees weakness; the reality is a newfound strategic patience and discipline that is building a more profitable and resilient enterprise.

Section 6: Valuation and Margin of Safety

To quantify the potential mispricing by the market, we will use two primary valuation methodologies suited to a cyclical, industrial company with distinct business units: a Sum-of-the-Parts (SOTP) analysis and an Earnings Power Value (EPV) model. These models will help establish a conservative estimate of Nissan's

intrinsic value, which can then be compared to its current market price to determine if a margin of safety exists for a long-term investor.

Sum-of-the-Parts (SOTP) Valuation

The SOTP methodology values each of Nissan's business segments independently and then sums them up to arrive at a total enterprise value. This approach is useful for a company like Nissan with a large automotive operation, a distinct financial services arm, and significant equity stakes in other public companies.

1. Valuation of Financial Services Arm:

- Nissan's Sales Financing segment is a stable, profitable business. We can value it using a price-to-book (P/B) multiple, common for financial institutions.
- **Pre-tax income (FY2024):** ¥157.5 billion.
- **Total assets (FY2024):** ¥19,855.2 billion.
- **Comparable Multiple:** A peer like Ally Financial trades at a P/B ratio of approximately 0.9x. Given the quality and consistency of Nissan's financing arm, a conservative 0.8x P/B multiple is reasonable. To estimate the book value (equity) of the financing arm, we can apply a typical 10:1 asset-to-equity ratio common in auto finance, suggesting an equity value of roughly ¥1,985.5 billion.
- **Value of Financial Services:** ¥1,985.5 billion (Book Value) * 0.8 (P/B Multiple) = **¥1,588.4 billion**

2. Valuation of Equity Stakes:

- **Stake in Renault SA:** Nissan holds a 15% stake in Renault. As of August 2025, Renault's market capitalization is calculated based on 287,293,820 shares outstanding at €33.11 per share.
 - Value = (287,293,820 shares * 0.15) * €33.11 = €1,427.6 million. Assuming a EUR/JPY exchange rate of 160, this is approximately **¥228.4 billion**.
- **Stake in Mitsubishi Motors Corporation (MMC):** Nissan holds 357,592,277 shares. At a price of ¥411.40 per share as of August 2025.
 - Value = 357,592,277 shares * ¥411.40/share = **¥147.0 billion**.
- **Total Value of Equity Stakes:** ¥228.4 billion + ¥147.0 billion = **¥375.4 billion**.

3. Implied Value of Core Automotive Business:

- First, we determine Nissan's Enterprise Value (EV).
 - Market Capitalization (as of mid-August 2025, approx. ¥400/share * 3.695 billion shares): **¥1,478.0 billion**.
 - Total Interest-Bearing Debt (FY2024): **¥8,100.0 billion**.
 - Cash and Cash Equivalents (FY2024): **¥2,197.5 billion**.
 - Enterprise Value = Market Cap + Debt - Cash = ¥1,478.0B + ¥8,100.0B - ¥2,197.5B = **¥7,380.5 billion**.

- Next, we subtract the values of the other parts from the total EV to find the market's implied value for the core auto business.
 - $\text{Implied Auto EV} = \text{Total EV} - \text{Value of Financial Services} - \text{Value of Equity Stakes}$
 - $\text{Implied Auto EV} = ¥7,380.5\text{B} - ¥1,588.4\text{B} - ¥375.4\text{B} = \text{¥5,416.7 billion.}$
- The core automotive business generated ¥11.438 trillion in revenue in FY2024. This means the market is currently valuing the entire automotive operation at an EV/Sales multiple of just **0.47x**, an extremely low figure for a major global automaker.

Earnings Power Value (EPV) Valuation

The EPV model provides a conservative valuation by capitalizing the company's normalized, sustainable earnings at its cost of capital. This smooths out the effects of the business cycle.

1. Calculate Average, Normalized EBIT:

- We will average Nissan's operating income (EBIT) over the last 10 fiscal years (2016-2025) to get a sense of its through-the-cycle earnings power.
 - Sum of EBIT (2016-2025): ¥3,260.1 billion.
 - 10-Year Average EBIT: **¥326.01 billion.**

2. Adjust for Taxes:

- Using an average tax rate of 35% (a standard rate for Japanese corporations, more conservative than the volatile effective rates).
- $\text{Adjusted Earnings} = ¥326.01 \text{ billion} * (1 - 0.35) = \text{¥211.91 billion.}$

3. Capitalize Earnings:

- We will use a Weighted Average Cost of Capital (WACC) of 7.2%, as estimated by Morningstar, which is a reasonable figure from a reputable source.
- $\text{EPV of Operations} = \text{Adjusted Earnings} / \text{WACC} = ¥211.91 \text{ billion} / 0.072 = \text{¥2,943.2 billion.}$

4. Adjust for Net Debt:

- $\text{Net Debt (FY2024)} = \text{Total Debt} - \text{Cash} = ¥8,100.0\text{B} - ¥2,197.5\text{B} = \text{¥5,902.5 billion.}$
- However, much of this debt supports the financial services arm. A common approach is to attribute debt proportionally. The auto business represents roughly 90% of revenue but is less capital intensive. A conservative estimate would be to allocate 60% of the net debt to the auto business.
- $\text{Net Debt (Auto)} = ¥5,902.5 \text{ billion} * 0.60 = \text{¥3,541.5 billion.}$

5. Calculate Equity Value:

- $\text{EPV Equity Value} = \text{EPV of Operations} - \text{Net Debt (Auto)} + \text{Value of Other Assets}$
- $\text{EPV Equity Value} = ¥2,943.2\text{B (Operations)} - ¥3,541.5\text{B (Auto Debt)} + ¥1,588.4\text{B (Finance Arm)} + ¥375.4\text{B (Stakes)} = \text{¥1,365.5 billion.}$

- $\text{EPV per Share} = \text{¥1,365.5 billion} / 3.695 \text{ billion shares} = \text{¥369.5 per share.}$

Valuation Summary and Margin of Safety

Methodology	Estimated Equity Value	Value Per Share
Current Market Price	¥1,478.0 Billion	~¥400
Earnings Power Value (EPV)	¥1,365.5 Billion	~¥370

The EPV, our most conservative measure based on historical normalized earnings, suggests an intrinsic value of approximately ¥370 per share, which is slightly below the current market price. This indicates that at ¥400 per share, the stock is not trading at a significant discount to its bare-bones, no-growth earnings power.

However, the SOTP analysis reveals the crux of the thesis. It shows that the market is valuing Nissan's massive core automotive business at less than 0.5x sales. The EPV calculation is based on a 10-year average EBIT that includes significant losses during the turnaround (FY2019, FY2020) and the recent downturn (FY2024). If management's "Nissan NEXT" improvements are sustainable, the company's future average earnings power should be considerably higher than this historical average.

If Nissan can achieve a sustainable operating margin of just 3% on its automotive revenue of ~¥11.5 trillion, its automotive EBIT would be ¥345 billion. Capitalizing this figure alone suggests a value that would push the total company's intrinsic value well above ¥500 per share.

Conclusion on Margin of Safety: At the current price of ~¥400, there is not a large, immediate margin of safety based on a purely historical EPV. The margin of safety is prospective. It is predicated on the belief that the operational improvements are real and that future earnings power will revert to a healthier, higher mean than the 10-year historical average. The investment is a bet that the market is wrong about the sustainability of the turnaround, and the extremely low valuation of the core auto business provides a buffer against further operational setbacks.

Section 7: Verdict and Key Risks

Verdict: HOLD

For a long-term, value-oriented investor with a 3-5 year investment horizon, Nissan Motor Co. warrants a **HOLD** recommendation.

The company is in the advanced stages of a credible and necessary business transformation. The management team has demonstrated rationality in its capital allocation, the once-troubled Alliance has been successfully rebalanced into a strategic asset, and the underlying profitability of the core business has improved significantly, as evidenced by the growth in revenue per unit.

However, the current market price of approximately ¥400 per share does not offer a compelling margin of safety based on a conservative Earnings Power Value analysis. The valuation is fair if one assumes the business's future is simply an extension of its troubled past decade. The upside thesis, therefore, relies heavily on the future materialization of improved earnings power, which faces significant execution risk. An investor who already holds a position can be confident in the long-term strategic direction. A prospective

investor should wait for a more attractive entry point—either a lower stock price that offers a clear margin of safety below the calculated EPV, or tangible proof of a sustained recovery in operating margins and positive free cash flow from the automotive business.

Key Risks

The investment thesis is predicated on a successful operational turnaround and the market eventually recognizing the company's improved fundamentals. The following are the most critical risks that could invalidate this thesis:

1. **Failure to Execute on the Electrification Roadmap:** The entire automotive industry is moving towards electrification, and Nissan's long-term competitiveness depends on a successful transition. The thesis assumes that investments in e-POWER and all-solid-state batteries will yield a competitive product portfolio.
 - **Risk:** Significant delays beyond those already announced for new U.S. EVs, a failure of the ASSB technology to prove commercially viable, or a product lineup that fails to resonate with consumers could cause Nissan to fall permanently behind competitors like Hyundai and Volkswagen, who are executing their EV strategies aggressively. This would lead to a permanent erosion of market share and pricing power.
2. **Prolonged Downturn in Key Markets (North America & China):** The company's financial health is highly dependent on sales in North America and China. The thesis assumes that current challenges in these regions are cyclical and can be managed.
 - **Risk:** The sharp sales decline in China could prove to be a structural, rather than cyclical, issue, reflecting a permanent loss of competitiveness against domestic Chinese brands. In North America, a failure to refresh the product lineup quickly enough or a prolonged period of high incentive spending could permanently damage brand equity and lead to a sustained period of low profitability, preventing the company from generating the free cash flow needed to fund its transformation.
3. **Inability to Sustain Profitability Gains:** The core of the thesis is that the market is mispricing improved operational discipline and earning power.
 - **Risk:** The gains in net revenue per unit could prove temporary, driven by transient post-pandemic supply chain dynamics rather than a sustainable cultural shift. A return to heavy discounting and a focus on low-margin fleet sales to chase volume would signal a failure of the "Nissan NEXT" philosophy, invalidating the central argument that the company is fundamentally more profitable than its past performance suggests.