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April 1, 2025

Nissan Motor Co., Ltd.
Representative executive officer, president and CEO
Attn: Mr. Ivan Espinosa

Strategic Capital, Inc.
Tsuyoshi Maruki, President &CEO

株式会社ストラテジックキャピタル

Re: Issues and solutions of subsidiary, Nissan Shatai Co., Ltd.

We, Strategic Capital, Inc. are an investment management company that holds 300 units of Nissan Motor Co., Ltd. ("NISSAN") shares and approx. 3.4% of Nissan Shatai Co., Ltd, one of Nissan subsidiaries.

We sent a letter to the previous management team on September 26, 2024. In light of the changes in the management team we are sending this letter to reiterate our opinions

Issues with Nissan Shatai (hereinafter referred to as "NS")

1. Company lacks independence and performance sluggish

NS's consolidated gross profit margin has been amongst the lowest of the approximately 120 listed auto and auto-related manufacturers over the past 20 years. This is because 98% of their sales is dependent on NISSAN and the terms are extremely unfavorable to NS.

The profits of NS, a listed subsidiary, continue to be expropriated by NISSAN.

2. Company lacks independence. NISSAN determines director appointments and management policy.

At last year's AGM for NS, 73% of minority shareholders opposed the election of Takashi Tomiyama (an alumnus from NISSAN) to the board of NS. At previous AGMs, more than 60% of minority shareholders continuously opposed NS' candidates yet they continued to be elected due to 50% voting rights held by NISSAN.

In addition, recent news reports suggest that restructuring at NS plants are being considered as part of NISSAN's restructuring efforts.

3. Company lacks independence and continues to fund NISSAN

NS has been providing NISSAN with vast amounts of ongoing funding in the form of deposits or loans through their CMS. As of December 2024, the amount was approx. JPY 90 billion. In 2022, a shareholder proposal was made to abolish the CMS of which 72% of the general shareholders voted in favor. The proposal was rejected due to NISSAN voting against it.

Currently Moody's, Fitch and S&P rate NISSAN's credit rating as non-investment grade. Nonetheless, NS continues to extend credit equivalent to JPY 160 billion in trade receivables, deposits and loans to NISSAN. As a shareholder of NS, we cannot overlook the fact that they are extending credit in an amount equal to about 93% of its equity capital.

4. Delisting due to parent company shareholding and lack of tradable shares

Since NISSAN holds 50% and a foreign investment fund called Effissimo holds 29.7%, the ratio of tradable shares is very low, and NS may be at risk of delisting based on the criteria of the Tokyo Stock Exchange.

If Effissimo's holdings is determined to be fixed (i.e. non-tradable), NS will be given one-year to improve starting March 31, 2025. If no improvement is seen, it will become a Security Under Supervision starting March 31, 2026, and be delisted at the end of June 2026.

As mentioned above, many of NS' problems are a result of NISSAN's 50% majority stake.

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Solving the problem

1. For continued listing of Nissan Shatai

In order for NS to remain an independent publicly traded company, it is necessary for NISSAN to 1) review the terms of business it has with NS so that they can achieve earnings above its cost of capital, 2) reduce the number of directors from NISSAN, end the funding arrangement and allow NS to manage the company according to the wishes of the minority shareholders and 3) reduce NISSAN's 50% stake to 30%.

However, given NISSAN's current situation, the strategy is likely not feasible.

2. When Nissan Shatai becomes delisted

As NS is in effect one of NISSAN's factories and cannot be said to be an independent listed company, to reflect the reality, NISSAN should offer fair compensation to the minority shareholders of NS and acquire the remaining shares making it a part of NISSAN.

In this case, NISSAN could purchase the minority interest for the same JPY 90 billion NS has deposited with NISSAN and make it a wholly owned subsidiary. Alternatively, considering the position of the NS employees, who perform the same duties of NISSAN's directly managed plants, they should be treated in the same manner as NISSAN employees through an absorption merger, but I would like to add that even in this case, NS' minority shareholders should be offered compensation exceeding the dissolution value.

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