

FY2023 2nd Quarter (2022/4–2022/9) Financial Results

Summary of Q&A

Financial results and forecast

Q: What was the actual operating profit in 2Q compared to DENSO's plan? How much progress has DENSO made in passing on costs, including parts, materials, and logistics costs, to customers?

A: In 1Q, we expected profit of about 120 billion yen for 2Q, but the actual profit was 90 billion yen due to the drop in vehicle production, which was slightly larger than the 10% drop in production that we had expected. Meanwhile, we have been negotiating to pass on costs to customers and have obtained their consent for 40–50% of our estimate. The recovery may be delayed to next fiscal year, but we aim to recover almost the full amount, including the deferred amount, by the end of this fiscal year.

Q: What specific factors contributed to the deterioration of the revenue and business conditions in North America?

A: Profitability was low for some time. We will greatly improve our profitability by cutting back some of our operations, including closing a thermal systems production company in Michigan and relocating its operations to Mexico and Canada. Based on preparations that have been made, we will gradually recover profitability. In Tennessee, we will reorganize our portfolio and enhance profitability by concentrating on focus fields, including electrification, safety, and electronics.

Q: What are the risks and opportunities in the annual plan? When does DENSO expect the semiconductor shortage to be resolved?

A: We estimate that annual production may be about 12% lower than the initial plan. Any upward revision would be an opportunity. We have cut fixed costs mainly by increasing the development efficiency in the first half of FY2023. These efforts will produce results in the second half of the year. We will also work on passing on the costs of materials, electronic parts, and energy to customers. The current foreign exchange rate is also an opportunity.

Uncertainties include logistics disruptions due to labor strikes at ports in North America. We are currently coping with this situation by using the inventory, but we will reduce it if the strikes subside. Our current inventory is worth more than 1.1 trillion yen; we hope to reduce it to the pre-pandemic level of 800 billion yen over the next 12 or 18 months. Inventory is both a risk and an opportunity.

The supply and demand balance for general-purpose semiconductor parts has eased greatly. However, there is a shortage of automotive microcomputers and ICs. For example, ASICs, each of which consists of several ICs, are in short supply, so we use three or four general-purpose ICs or use ASICs of different generations. The auto industry must change.

Capital expenditure and R&D expenditure

Q: Why did DENSO revise the annual forecast of capital expenditure and R&D expenditure?

A: We will reduce capital expenditure by scrutinizing projects based on financial control and discipline. We will also reduce R&D expenditure by increasing efficiency, instead of exercising financial control, while maintaining output. Technology is our lifeline, so we have reduced the amounts based on different concepts.