Growth strategies for Creating corporate value

May 26, 2021

Yasushi Matsui
Senior Executive Officer, CFO, CRO

DENSO Corporation

DENSO supports the Sustainable Development Goals (SDGs).
### Target for creating corporate value

DENSO Sustainable management  
= Solving social issue (Philosophy) × Growing business (Financial)

<table>
<thead>
<tr>
<th>Category</th>
<th>Policy</th>
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<tbody>
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<td>Ultimate “Zero” (CO2, Traffic accident)</td>
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<tr>
<td>Financial</td>
<td>Expand “Equity spread” for mid-long term</td>
<td>ROE &gt; 10%</td>
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</tbody>
</table>

#### Financial Leverage
- ROE (Return on Equity)
- ROIC (Return on Investment Capital)

<table>
<thead>
<tr>
<th>Equity spread</th>
<th>ROE [10%]</th>
<th>Financial Leverage</th>
<th>ROIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Equity</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Targets
- Improve capital structure
- Renew policy for shareholder return
- Expand growth business
- Rearrange unprofitable business
- Disciplined Restraint of fixed cost

### Philosophy
- [Solving social issue]
  - Contribute to society to maximize the Value of “Green” & “Peace of Mind” to Be Inspiring

### Financial
- [Growing business]
  - Expand “Equity spread” for mid-long term

#### Targets
- Ultimate “Zero” (CO2, Traffic accident)
- ROE > 10%

#### Strategic Actions
- Improve capital structure
- Renew policy for shareholder return
- Expand growth business
- Rearrange unprofitable business
- Disciplined Restraint of fixed cost
Target for creating corporate value

DENSO Sustainable management
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**Philosophy [Solving social issue]**

- Contribute to society to maximize the Value of “Green” & “Peace of Mind” to Be Inspiring

**Financial [Growing business]**

- Expand “Equity spread” for mid-long term

**Equity spread**

- ROE [10%]

**Cost of Equity**

**Financial Leverage [ Improve equity value ]**

**ROIC [ Strengthen competitiveness ]**

- Improve capital structure
- Renew policy for shareholder return
- Expand growth business
- Rearrange unprofitable business
- Disciplined Restraint of fixed cost
Realize both profitability & future growth

- Improve profitability sustainably
  - by Creating new business
  - Expanding growth business
  - Shrinking maturity business

- Revenue (Trillion yen)
  - FY21: 5.5
  - FY25: Double
  - FY35: Half

- Operating Margin
  - 7.6%

- Growth
  - 10% or higher

- Maturity
  - 10%

- Business
  - Carbon neutral
  - New mobility
  - Agriculture, FA*, Logistics
  - *Factory Automation

- Action
  - Accelerate business development to realize philosophy
  - Sales expansion for steady growth
  - Rearrange business portfolio for efficiency

CASE
- Internal Combustion
- Double
- Half
- New

CASE
- Sales expansion for steady growth
- Rearrange business portfolio for efficiency
Re-arrangement of business portfolio in consideration with “Cost of Capital”

Re-arrange portfolio based on “WACC” (Maturity => Growth / New)

- **Generate new market & value**
  - Deploying new market by DN tech.
  - Launch of energy utilizing biz.

- **Lead industry by expansion**
  - Sales expansion & Global deployment
  - Profitability improvement (Software revolution etc.)

- **Improve ROIC by restructuring**
  - Restructuring in whole industry
  - Cash-cow by restrain of investment
Realize both “Philosophy” & “Profitability”

Accelerate re-arrangement of portfolio to realize carbon neutral & profitability improvement from FY20
Realize both “Philosophy” & “Profitability”

Improve profitability by expanding CASE & shrinking ICE, Generate market for carbon neutral business
Realize both “Philosophy” & “Profitability”

Establish business portfolio to realize both carbon neutral & high profitability
Sales expansion in growth area (Electrification)

Sales forecast
(Billion yen)

- **Electrical drive**
  - Power supply
  - Control
  - Thermal management

FY20: 550
FY25: 2 times 1,000
FY30: 2 times 1,000

<Product lineup>

- Electrical drive
  - Inverter
  - ECU
  - Current sensor
  - Battery monitoring IC
  - Relay

- Power supply
  - Battery monitoring IC

- Control
  - HV ECU
  - Heat pump module
  - Thermal products

- Thermal management
  - Miniaturization
  - Next generation miniaturization (Function integration)

Inverter differentiation strategy

- High Voltage
  - Agriculture
  - Construction vehicle
  - Premium

- C.V.*
  - P.V.*
  - SUV
  - Small C.V.

- MG
  - (HEV)
  - (BEV/HEV)

System Voltage

- Small size, Low cost
- High Output
- High Current

Inverter power density

- Miniaturization
- Core

Max. Power density [kVA/L]

Next generation miniaturization
(= Function integration)

⇒ Number of parts reduced by approx. 20%

Company ranking = 1st place (*)

Invertor area: Number of patent
(Domestic & international)

(*): NGB Corporation, COMPANY RANKING OF DOMESTIC AND FOREIGN PATENT FAMILIES IN KEY COMPONENT TECHNOLOGIES OF ELECTRIC VEHICLES

https://www.ngb.co.jp/p_articles/detail/850.html
Sales expansion in growth area (Electrification)

Sales forecast
(Billion yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>550</th>
<th>1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY25</td>
<td></td>
<td>2 times</td>
</tr>
<tr>
<td>FY30</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Electrical drive
Power supply, Control, Thermal management system

<Product lineup>

<table>
<thead>
<tr>
<th>Electrical drive</th>
<th>Power supply</th>
<th>Control</th>
<th>Thermal management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invertor</td>
<td>Battery ECU</td>
<td>HV ECU</td>
<td>Heat pump module</td>
</tr>
<tr>
<td>MG</td>
<td>Current sensor</td>
<td></td>
<td>Thermal products</td>
</tr>
</tbody>
</table>

Battery system differentiation strategy

Safety & efficient control on a wide variety of batteries

System Configuration

<table>
<thead>
<tr>
<th>Component</th>
<th>ECU</th>
<th>Battery monitoring IC</th>
<th>Current Sensor</th>
<th>Relay</th>
<th>Module</th>
<th>Battery Cell</th>
</tr>
</thead>
<tbody>
<tr>
<td>SW</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

DENSO
Battery Supplier: *Only Battery
ECU Supplier

Unique technologies extending the cruising range

Battery monitoring IC: High accurate monitoring on cell capacity with low detection error

Avoid over-charging/over-discharging and Realize full performance of cell capacity to extend the cruising range.

Realize both environment & biz. growth by further deepening developed technologies and expanding our product lineup

Realize both environment & biz. growth by further deepening developed technologies and expanding our product lineup
Sales expansion in growth area (ADAS)

Sales forecast

(Billion yen)

<table>
<thead>
<tr>
<th>Advanced safety</th>
<th>Collision safety</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY20 320</td>
<td>FY25 500</td>
</tr>
<tr>
<td>FY30 1.5 times</td>
<td></td>
</tr>
</tbody>
</table>

Differentiation strategy of AD/ADAS

- **Wide product lineup** which is possible to cover various accident scenes

- Visual obstruction
- Taking eyes off of the road
- Driver incapacitation
- Depreciation of driving skill

- Eliminate traffic accidents by automatic braking
- Prevention by warning notice

- Emphasis on infrastructure + watching

- Original technology for promotion

**<Product lineup>**

<table>
<thead>
<tr>
<th>Advanced Driving Support System</th>
<th>Parking support</th>
<th>Autonomous driving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision sensor</td>
<td>Sonar ECU</td>
<td>LiDAR</td>
</tr>
<tr>
<td>Millimeter-wave</td>
<td>Sonar</td>
<td>ADS/ADX ECU</td>
</tr>
<tr>
<td>Driver monitor</td>
<td>Surround monitoring ECU</td>
<td>SIS ECU</td>
</tr>
<tr>
<td>V2X</td>
<td></td>
<td></td>
</tr>
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</table>

High recognizing performance of night camera
Install Lexus LS (2017)

Original Millimeter-wave recognizing algorithm
High-accuracy detection by fusion of sonar and camera
Install TOYOTA YARIS (2020)

Grow by wide product lineup and original technology against ADAS market expansion
Initiatives of New Business

**Non-mobility**
- Carbon Neutral
- SOFC/ SOEC (fuel cell)
- CO₂ collection, circulation
- e-Fuel biofuel
- Agriculture・Factory/FA・Logistics
  - Automating transport
- Turnkey solutions

**Mobility**
- Non-automotive mobility
- e-VTOL (SORA mobi)
- Energy management
- Contactless power feed system
- FCEV/BEV Energy management system

Work on Non-mobility and Non-MONOZUKURI (Non-manufacturing) area by taking advantage of a component technology cultivated by Mobility and M&A/alliance as well as a Mobility area.
Resources investment for restrain of fixed cost

- Drastically reduce capital investment for mechanical & HW including internal combustion
- Realize both creating new value & efficiency of large-scale SW development drastically based on SW strategy

**Capital investment**

- Depreciation on revenue (FY17: 5.3%, FY19: 5.8%, FY21: 6.2%, FY25: 6.0% or lower)
- Focus & Examine profitability (CASE, Factory CO₂ etc.)

**R&D expenses**

- (R&D on revenue) (FY17: 8.8%, FY19: 9.9%, FY21: 9.0%, FY25: 9.0% or lower)

**Policy**

- Drastically reduce capital investment for mechanical & HW including internal combustion
- Realize both creating new value & efficiency of large-scale SW development drastically based on SW strategy

**Key Points**

- Narrow down investment area to minimize (ICE, Commodity products etc.)
- Focus & Examine profitability (CASE, Factory CO₂ etc.)
- [Strengthen] New biz. development
- [Efficiency] SW reform
- [Efficiency] Upstream development

**Maturity & Growth**

- [SW cost] FY17 (49%) FY19 (53%) FY21 (54%) FY25 (54%)
Restriction of low profitability assets

Toward the enterprise value creation, improve asset efficiency

**Cash on hand**

- In relation to monthly turnover: **1.1 months**
  (Previous announcement: 1.2 months)

- Reduce cash and deposits by minimizing cash on hand required for business operations
  (Increasing deposits temporarily in order to deal with an emergency)

- Complete introduction of GCMS* for providing funds between regions
  * Global Cash Management System

<table>
<thead>
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<th>Monthly turnover</th>
<th>Cash and deposits</th>
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<tbody>
<tr>
<td>FY18</td>
<td>2.0 months</td>
</tr>
<tr>
<td>FY19</td>
<td>1.6 months</td>
</tr>
<tr>
<td>FY20</td>
<td>2.1 months</td>
</tr>
<tr>
<td>FY25</td>
<td>1.2 months (except temporary increasing)</td>
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<tr>
<td>&lt;Ideal situation&gt;</td>
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**Strategically held shares**

- **14 securities** sold in the last 2 years

- Further promotion of the reduction of strategically held shares
  - Screening by the qualitatively and the quantitatively at board of directors
    - Qualitatively: Management significance
    - Quantitatively: Return > WACC

- Steady reduction

<table>
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<tr>
<th>Reduction of low holdings rationality stocks</th>
<th>Keep of high holdings rationality stocks</th>
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<tr>
<td>FY18 44</td>
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</tr>
<tr>
<td>18% decrease</td>
<td>18% decrease</td>
</tr>
<tr>
<td>FY19 36</td>
<td>FY19 36</td>
</tr>
<tr>
<td>17% decrease</td>
<td>17% decrease</td>
</tr>
<tr>
<td>FY20 30</td>
<td>FY20 30</td>
</tr>
<tr>
<td>FY25 30</td>
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**Further reduction**
**Target for creating corporate value**

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**Philosophy**
[Solving social issue]

**Policy**
- Contribute to society to maximize the Value of “Green” & “Peace of Mind” to Be Inspiring
- Improve capital structure
- Renew policy for shareholder return
- Expand growth business
- Rearrange unprofitable business
- Disciplined Restraint of fixed cost

**Target**
- Ultimate “Zero” (CO2, Traffic accident)
- ROE > 10%

**Equity spread**
- ROE [10%]

**Financial Leverage**
- [ Improve equity value ]

**ROIC**
- [ Strengthen competitiveness ]
Target capital structure (financial leverage)

- Toward the enterprise value creation, design a financial strategy that consider the cost of capital
- Aiming for a shareholders' equity ratio of 50% or more, improving the capital structure to achieve a balance between efficiency and safety
- Improve ROE by improving returns while control the increase of shareholders' equity

FY20 Actual

- Total assets: 6.8 trillion
- Interest-free debt: 1.8 trillion
- Interest-bearing debt: 0.9 trillion
- Capital: 4.1 trillion
- Shareholders' equity ratio: 57.5%

FY25 Ideal situation

- Total assets
  - Interest-free debt (AP, etc.): 1.8 trillion
  - Interest-bearing debt (Utilization of borrowing): 0.9 trillion
  - Capital: 3.9 trillion
- Shareholders' equity ratio: 50% or more

≪How to achieve≫
Shift from shareholders' equity to borrowing while maintaining financial safety

【Utilization of borrowing】
- Actively take advantage of the borrowing, run a growth investment such as M&A (While maintaining the rating, there procurement capacity of more than 1 trillion yen)
- Diversification and strengthening of procurement base

【Return to shareholders】
- Renewed the way of thinking about dividends
- Flexibly acquire treasury stock in consideration of trends in our share price and our ideal capital structure

(See next page)
Shareholder return policy

Execute and strengthen the shareholder return policy that consider the cost of capital to control the increase of shareholder’s equity ratio.

**Dividend**

- Improve the dividend level in stable and long term
- Renewed standard to **DOE more than 3.0%**
  
  (Previously : Divided payout ratio 30〜40%)

**Treasury Stock Acquired**

- Flexibly acquire in consideration of trends in our share price and our ideal capital structure

*DOE : Dividend on Equity

### Dividends per Share (Yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>DOE</th>
<th>Dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY16</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>FY17</td>
<td>130</td>
<td>130</td>
</tr>
<tr>
<td>FY18</td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td>FY19</td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td>FY20</td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td>FY21</td>
<td>140</td>
<td>140</td>
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**Aiming for higher level of dividends with consider the cost of shareholder’s equity**

**< Forecast >**

**< Ideal situation >**
Generation and Uses of Cash

**FY20 [ Actual ]**
- Revenue: 4.9 trillion yen
- OPM: 2.5%

**FY21 [ Estimation ]**
- Revenue: 5.5 trillion yen
- OPM: 7.6%

**FY25 [ Target ]**
- OPM: 10%

(Trillion yen)

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<th>Cash generation</th>
<th>Spending</th>
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<tr>
<td>Approx. 0.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.11 Shareholder return</td>
</tr>
<tr>
<td></td>
<td>0.37 Capital investment</td>
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<tr>
<td></td>
<td>0.49 R&amp;D</td>
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Investment for growth (M&A, alliance etc.) + Shareholder return (Dividend + Treasury Stock Acquired)

Investment for growth (M&A, alliance etc.) + Shareholder return DOE 3.0% or higher + Treasury Stock Acquired

- R&D: 450
- Ratio on revenue 9%-α
- Capital investment: 350
- Depreciation ratio on revenue 6%-α

Implement investment for growth & shareholder return proactively by maximizing cash generation
# Summary for Financial KPIs

**Policy**

Expand “Equity spread” for mid-long term

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<th>FY21</th>
<th>FY25</th>
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<tbody>
<tr>
<td>Profitability</td>
<td>Revenue</td>
<td>4.9 tri. yen</td>
<td>5.5 tri. yen</td>
<td>Sustainable growth</td>
</tr>
<tr>
<td></td>
<td>OPM</td>
<td>3.1%</td>
<td>7.6%</td>
<td>10%</td>
</tr>
<tr>
<td>Investment</td>
<td>R&amp;D expenses</td>
<td>492 bil. yen</td>
<td>495 bil. yen</td>
<td>450 bil. Yen</td>
</tr>
<tr>
<td></td>
<td>Capital investment</td>
<td>374 bil. yen</td>
<td>395 bil. yen</td>
<td>350 bil. yen</td>
</tr>
<tr>
<td>Shareholder return</td>
<td>DOE</td>
<td>3.0%</td>
<td>3.0%</td>
<td>≦ 3.0%</td>
</tr>
<tr>
<td></td>
<td>Treasury Stock Acquired</td>
<td>--</td>
<td></td>
<td>Flexibly acquire</td>
</tr>
<tr>
<td></td>
<td>Shareholders’ equity ratio</td>
<td>57.5%</td>
<td></td>
<td>≦ 50%</td>
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**25 Target**

ROE > 10%