

DENSO

Crafting the Core

Growth strategies for Creating corporate value

May 26, 2021

Yasushi Matsui

Senior Executive Officer, CFO, CRO

DENSO Corporation

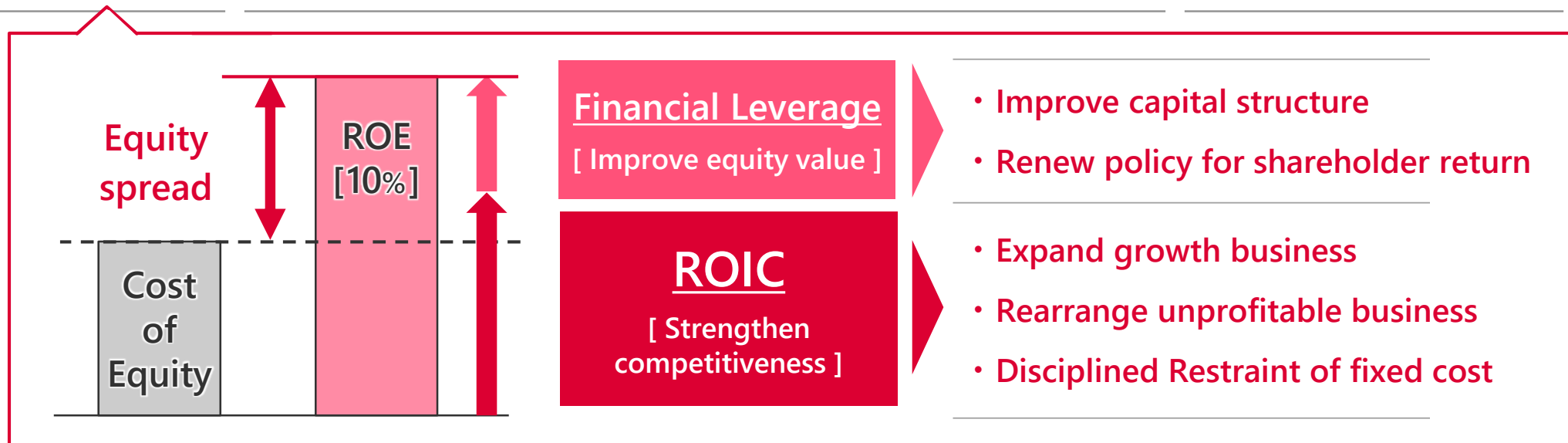


DENSO supports the Sustainable Development Goals (SDGs).

Target for creating corporate value

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

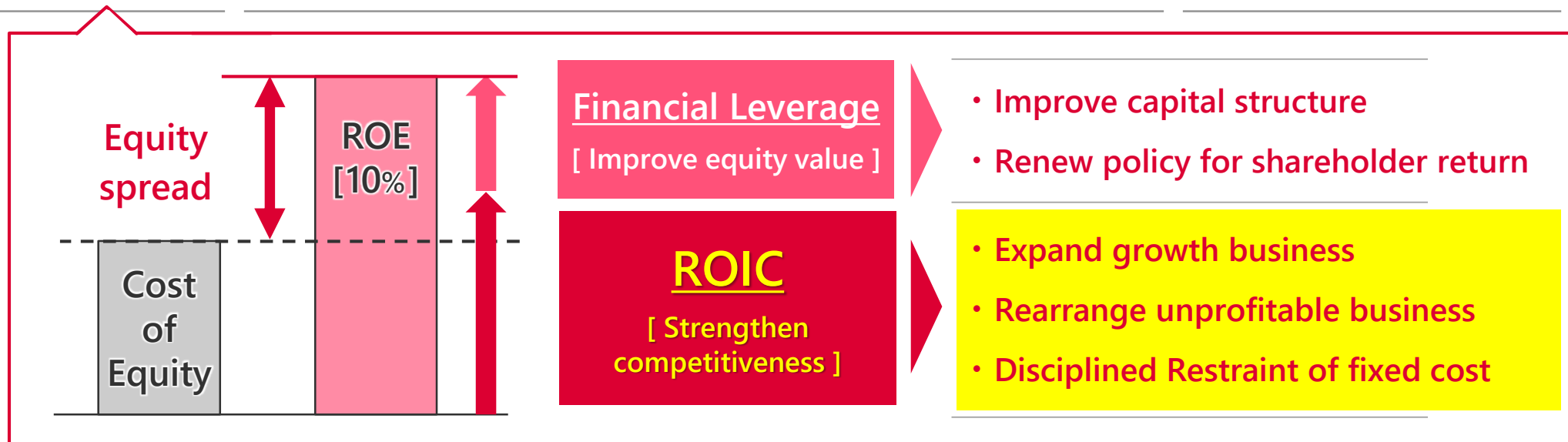
Category	Policy	Target
Philosophy [Solving social issue]	Contribute to society to maximize the Value of "Green" & "Peace of Mind" to Be Inspiring	Ultimate "Zero" (CO2, Traffic accident)
Financial [Growing business]	Expand "Equity spread" for mid-long term	ROE > 10%



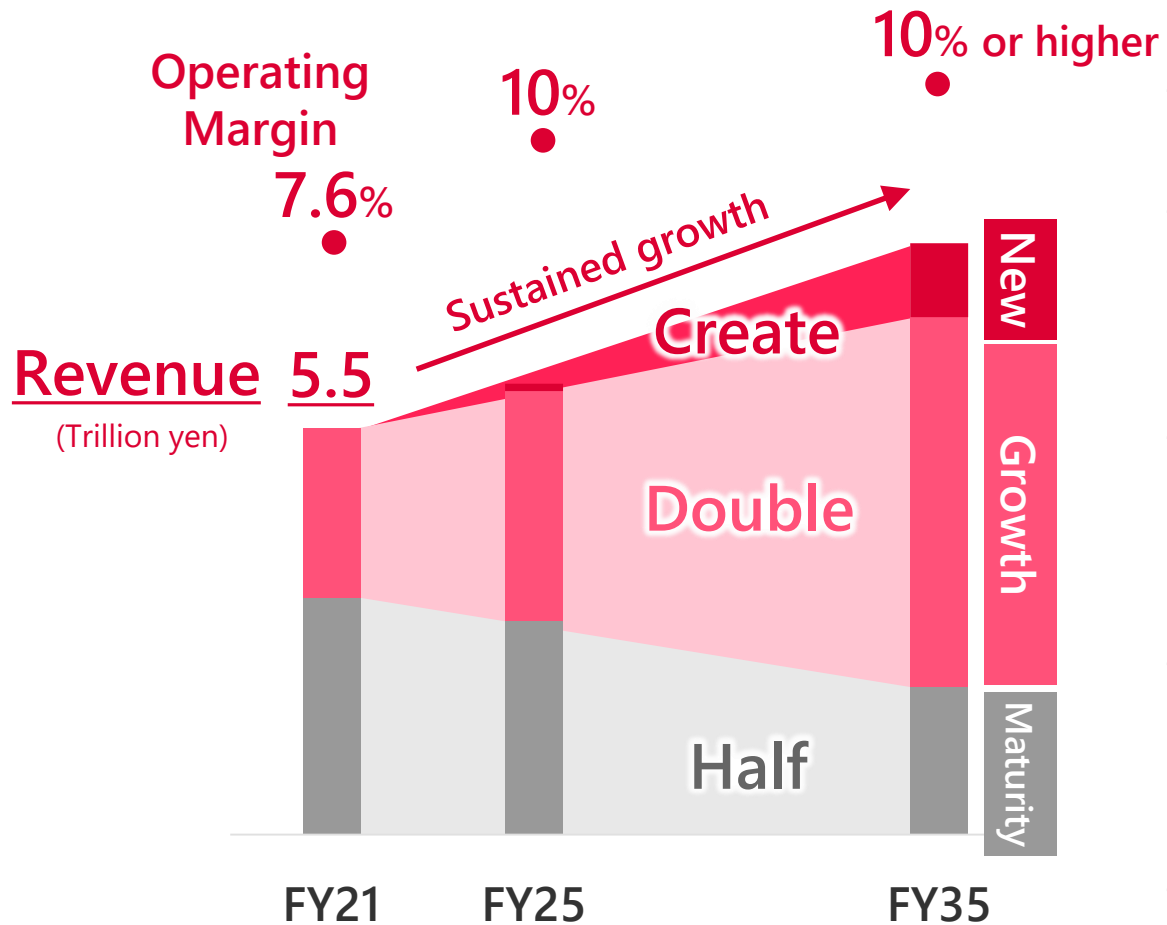
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Realize both profitability & future growth



Business

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

Action

Accelerate business
development to realize
philosophy

CASE

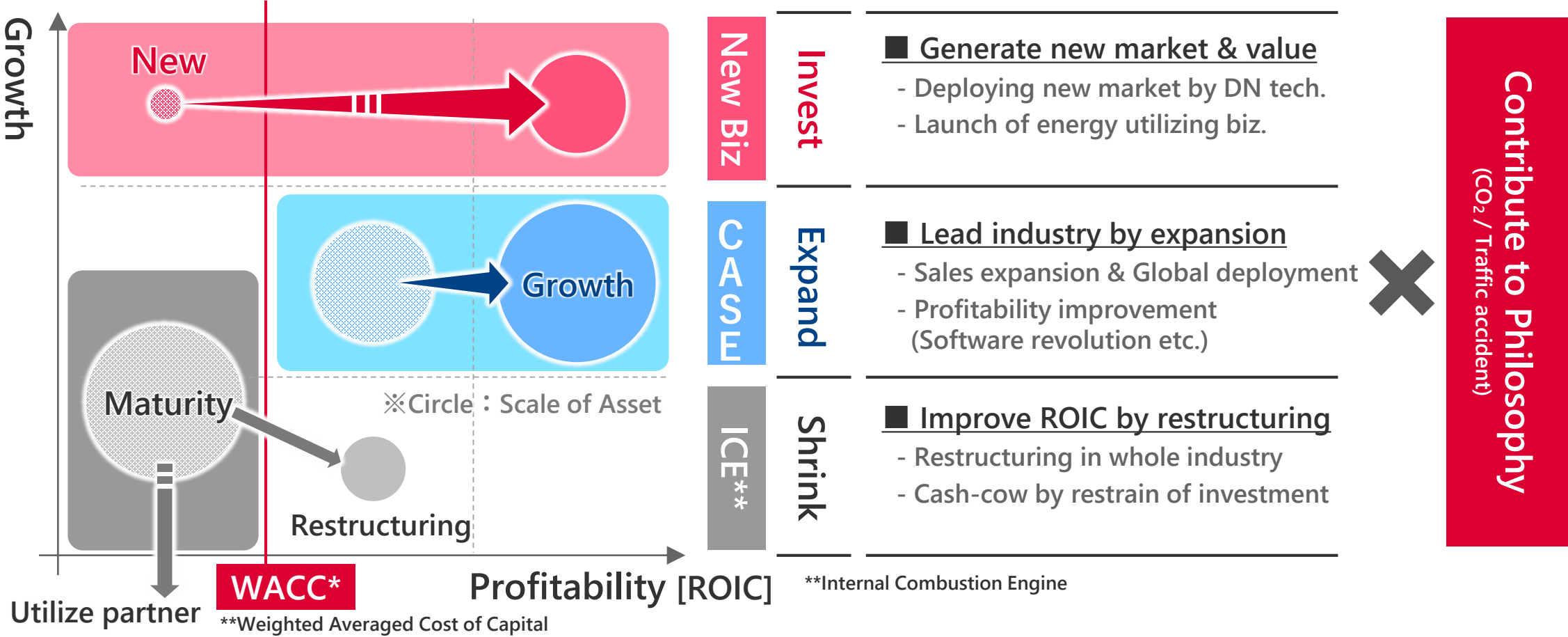
Sales expansion for
steady growth

Internal Combustion

Rearrange business
portfolio for efficiency

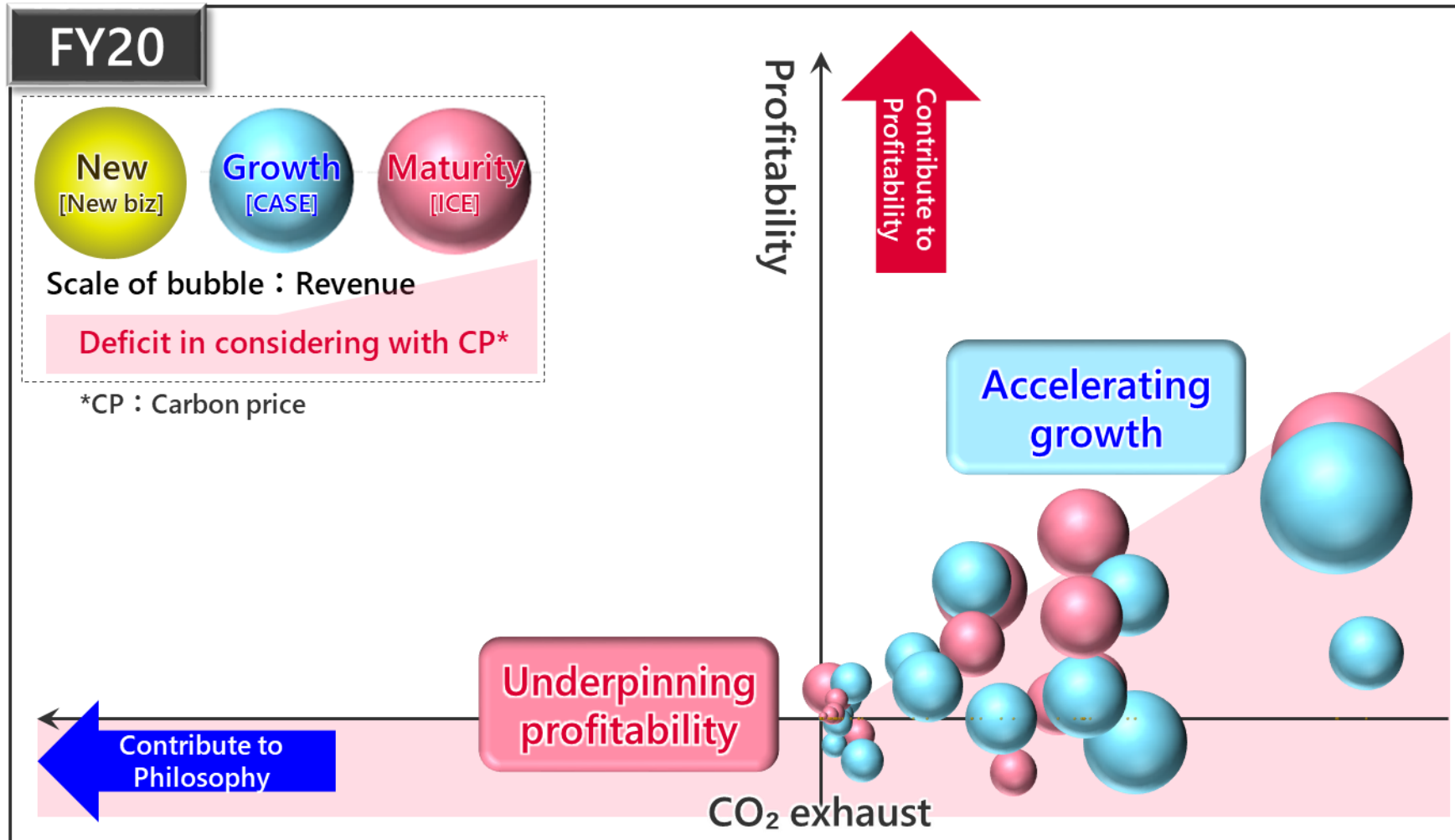
**Improve profitability sustainably
by Creating new business, Expanding growth business and Shrinking maturity business**

Re-arrangement of business portfolio in consideration with "Cost of Capital"



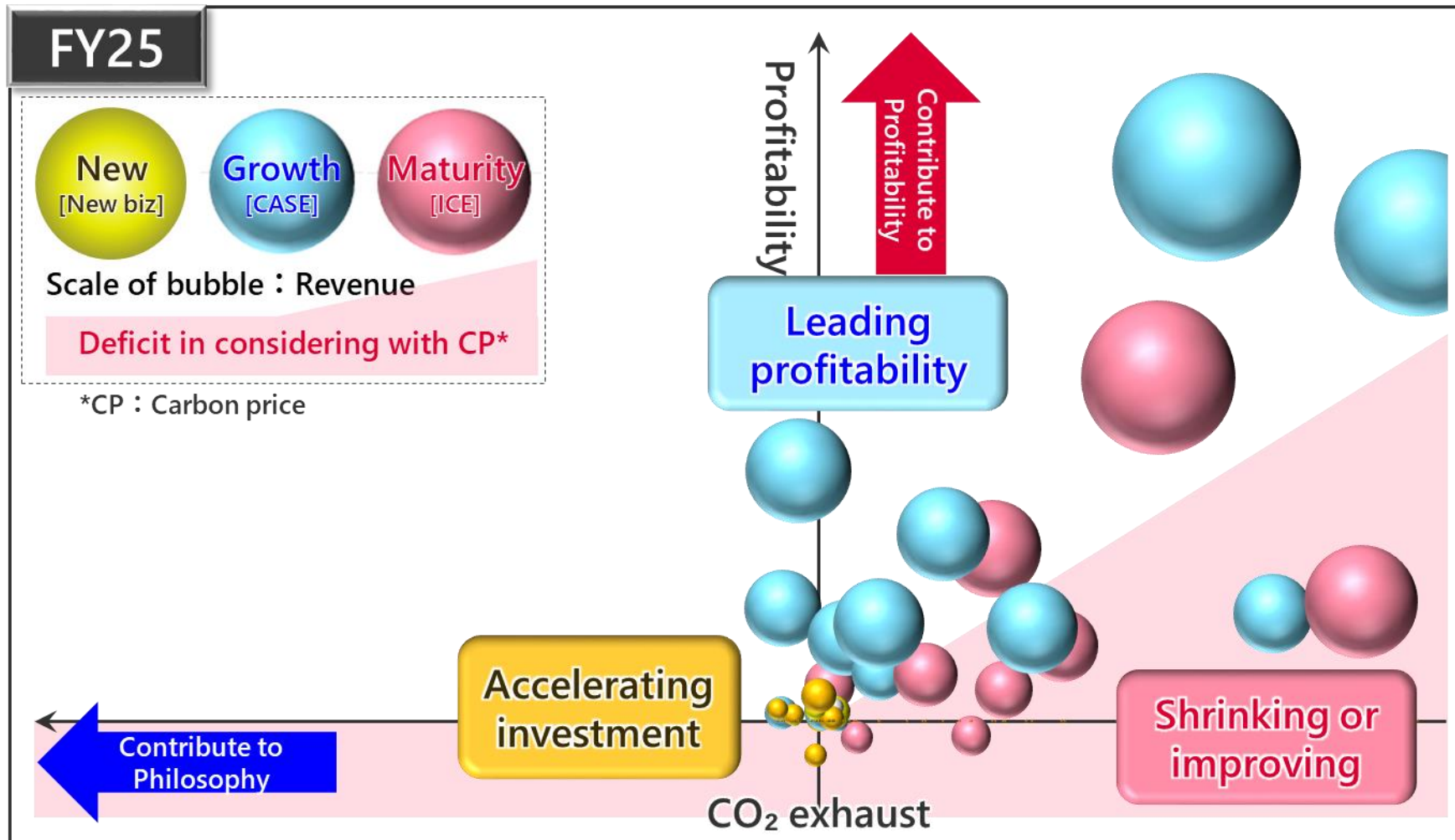
Re-arrange portfolio based on "WACC" (Maturity => Growth / New)

Realize both "Philosophy" & "Profitability"



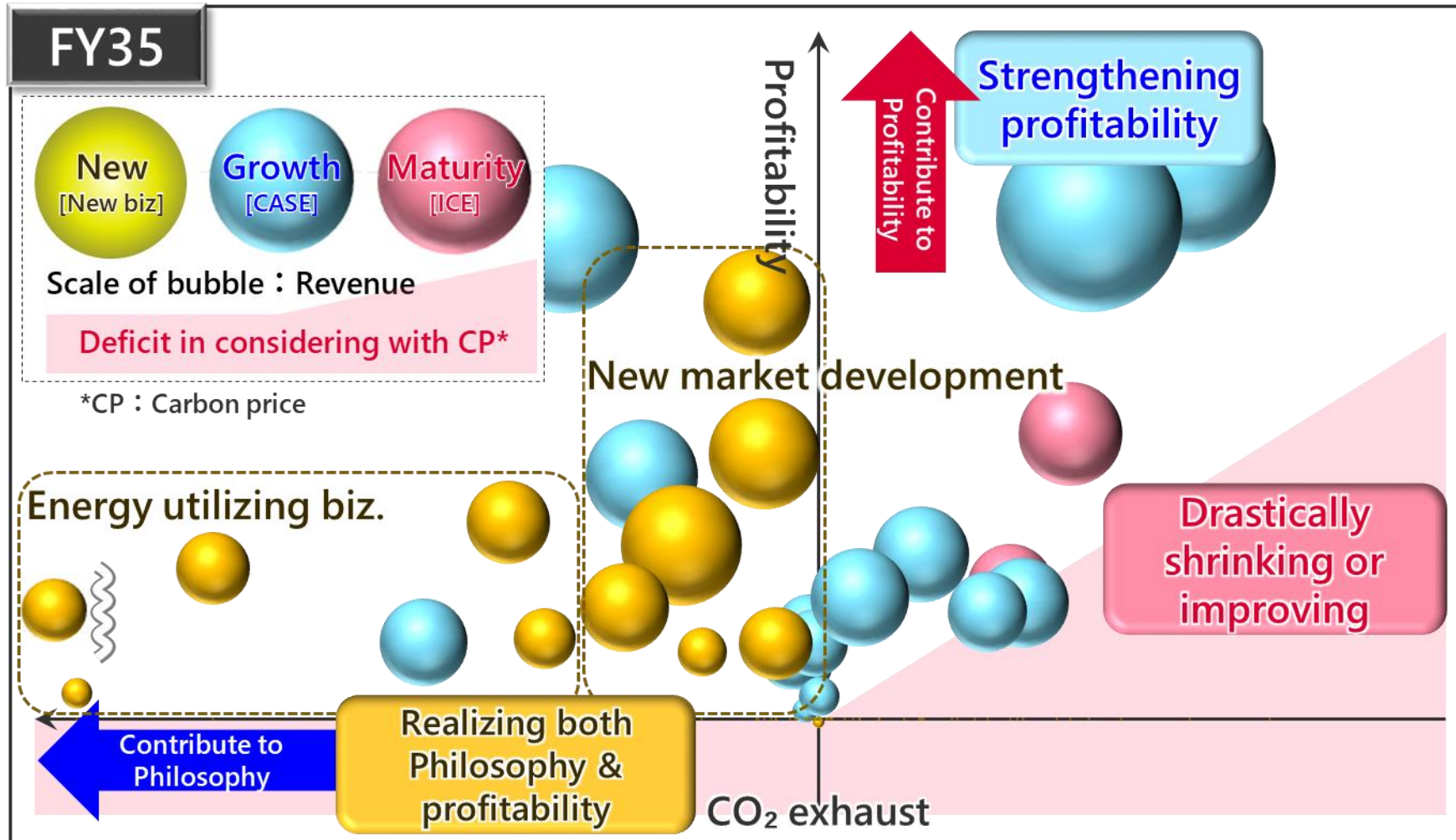
Accelerate re-arrangement of portfolio to realize carbon neutral & profitability improvement from FY20

Realize both "Philosophy" & "Profitability"



Improve profitability by expanding CASE & shrinking ICE, Generate market for carbon neutral business

Realize both "Philosophy" & "Profitability"

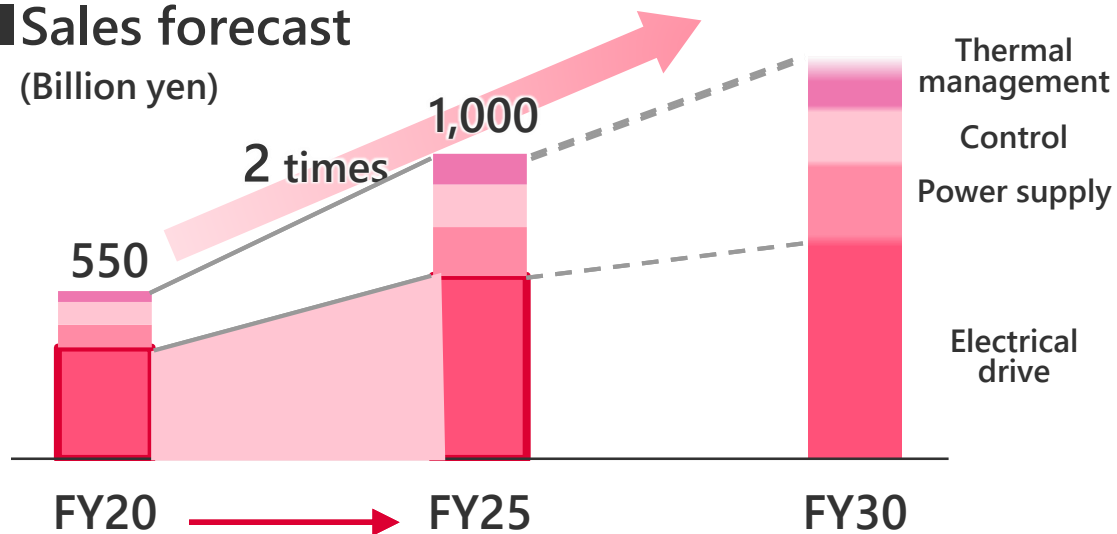


Establish business portfolio to realize both carbon neutral & high profitability

Sales expansion in growth area (Electrification)

■ Sales forecast

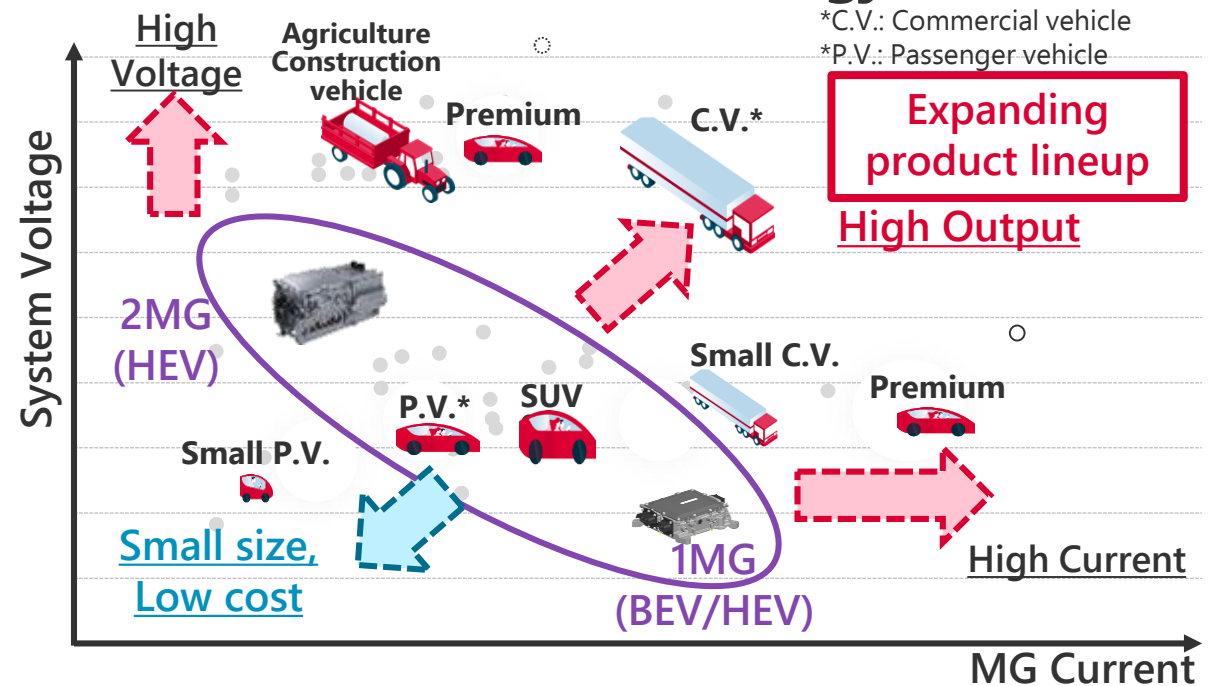
(Billion yen)



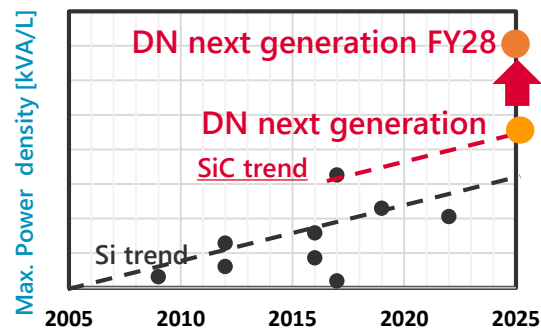
<Product lineup>

Electrical drive	Power supply	Control	Thermal management
<p>Inverter</p> <p>MG</p>	<p>Battery ECU</p> <p>Battery monitoring IC</p> <p>Current sensor</p> <p>Relay</p>	<p>HV ECU</p>	<p>Heat pump module</p> <p>Thermal products</p>

■ Inverter differentiation strategy



Inverter power density



Miniaturization + **Core Technologies**

Inverter area: Number of patent (Domestic & international)
Company ranking = 1st place (*)

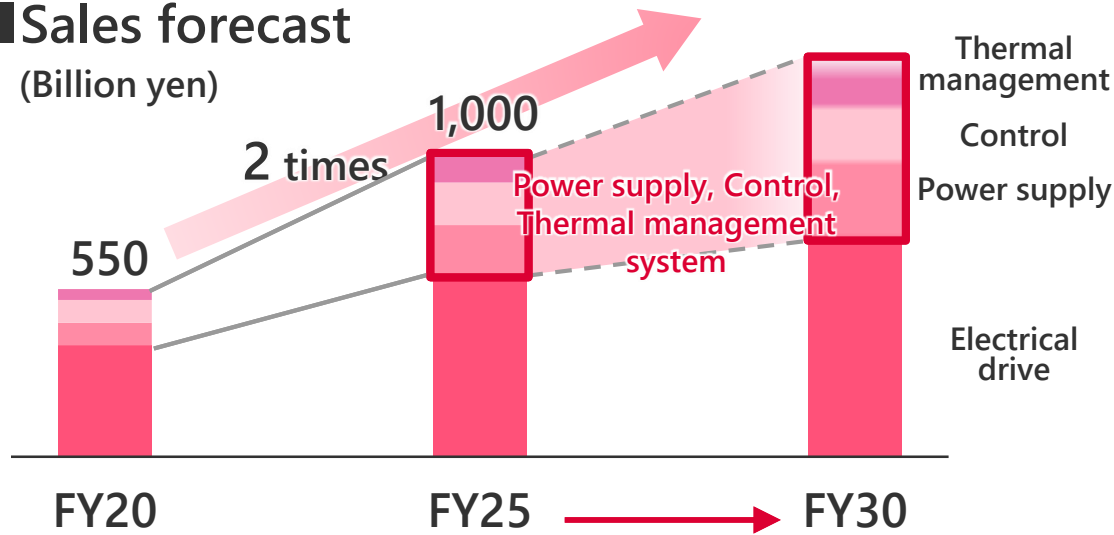
Next generation miniaturization
(= Function integration)
=> Number of parts reduced by approx. 20%

(*) NGB Corporation, COMPANY RANKING OF DOMESTIC AND FOREIGN PATENT FAMILIES IN KEY COMPONENT TECHNOLOGIES OF ELECTRIC VEHICLES
https://www.ngb.co.jp/ip_articles/detail/1850.html

Sales expansion in growth area (Electrification) ■ Battery system differentiation strategy

■ Sales forecast

(Billion yen)



<Product lineup>

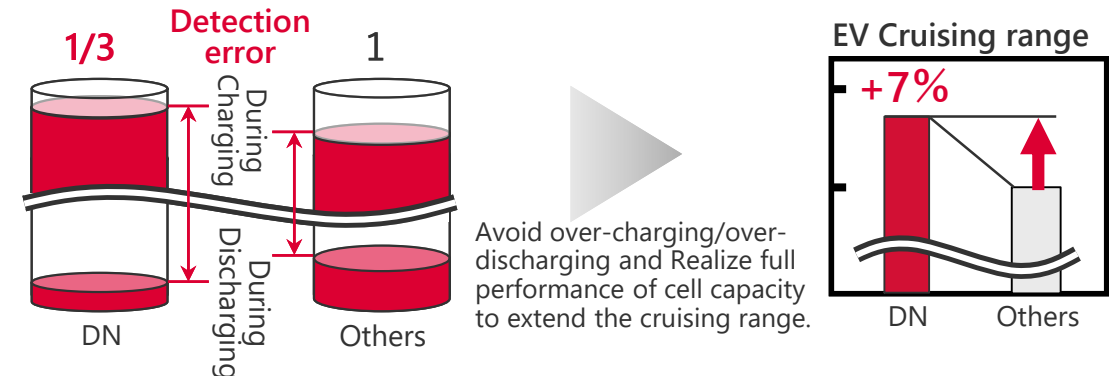
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✓ **Safety & efficient control** on a wide variety of batteries

	ECU	Battery monitoring IC	Current Sensor	Relay	Module	Battery Cell
System Configuration						
DENSO						
Battery Supplier						
ECU Supplier						

✓ **Unique technologies** extending the cruising range

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

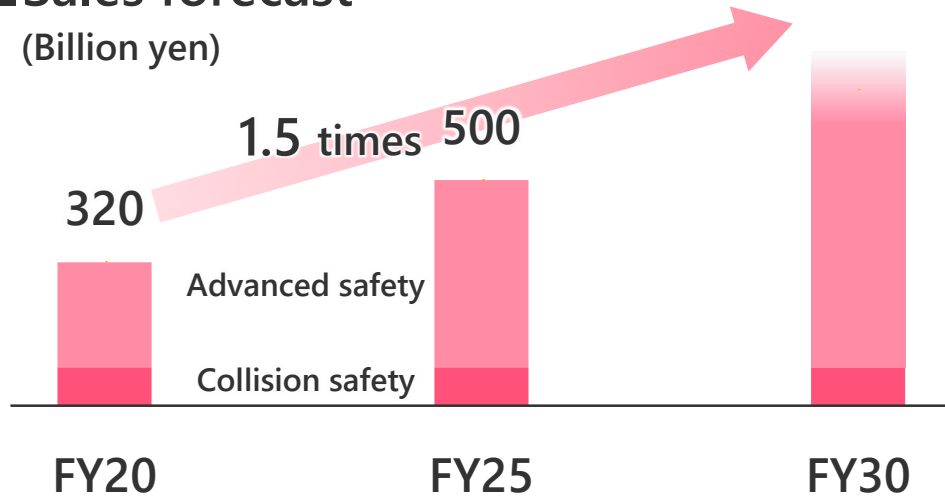


Realize both environment & biz. growth by further deepening developed technologies and expanding our product lineup

Sales expansion in growth area (ADAS)

■ Sales forecast

(Billion yen)

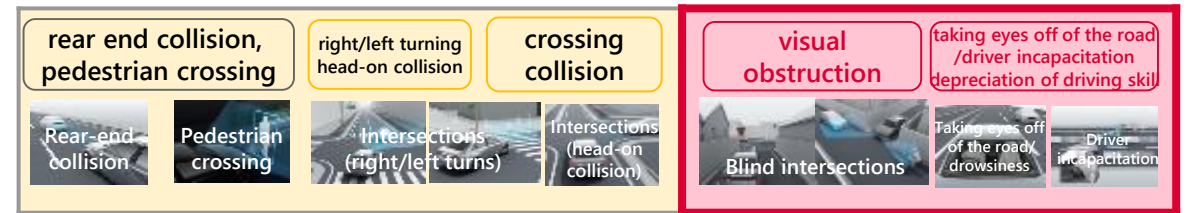


<Product lineup>

Advanced Driving Support System	Parking support	Autonomous driving
Vision sensor Millimeter-wave Driver monitor V2X	Sonar Sonar ECU Surround monitoring ECU	LiDAR ADS/ADX ECU SIS ECU

■ Differentiation strategy of AD/ADAS

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



Eliminate traffic accidents by automatic braking Prevention by warning notice



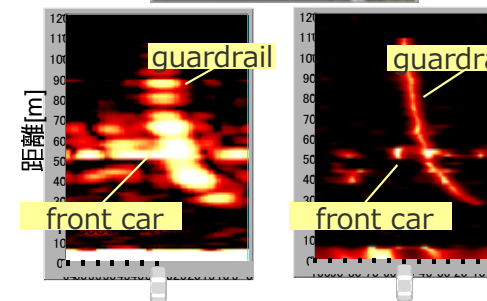
✓ **Original technology** for promotion

High recognizing performance of night camera

Install Lexus LS (2017)

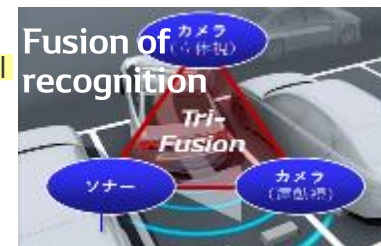


Original Millimeter-wave recognizing algorithm



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



CO₂ collection,
circulation

SOFC/
SOEC
(fuel cell)



e-Fuel
biofuel



Agriculture • Factory/FA • Logistics

Automating transport

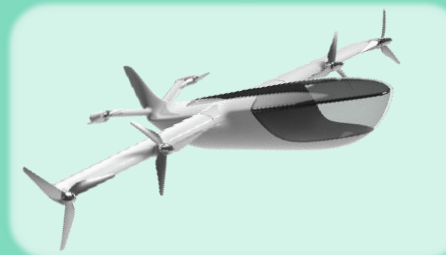


Turnkey solutions



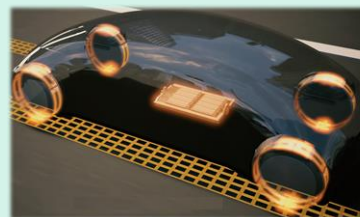
Mobility

Non-automotive mobility



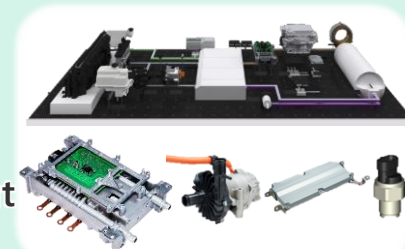
e-VTOL
(SORA mobi)

Energy management



Contactless
power feed
system

FCEV/BEV
Energy
management
system



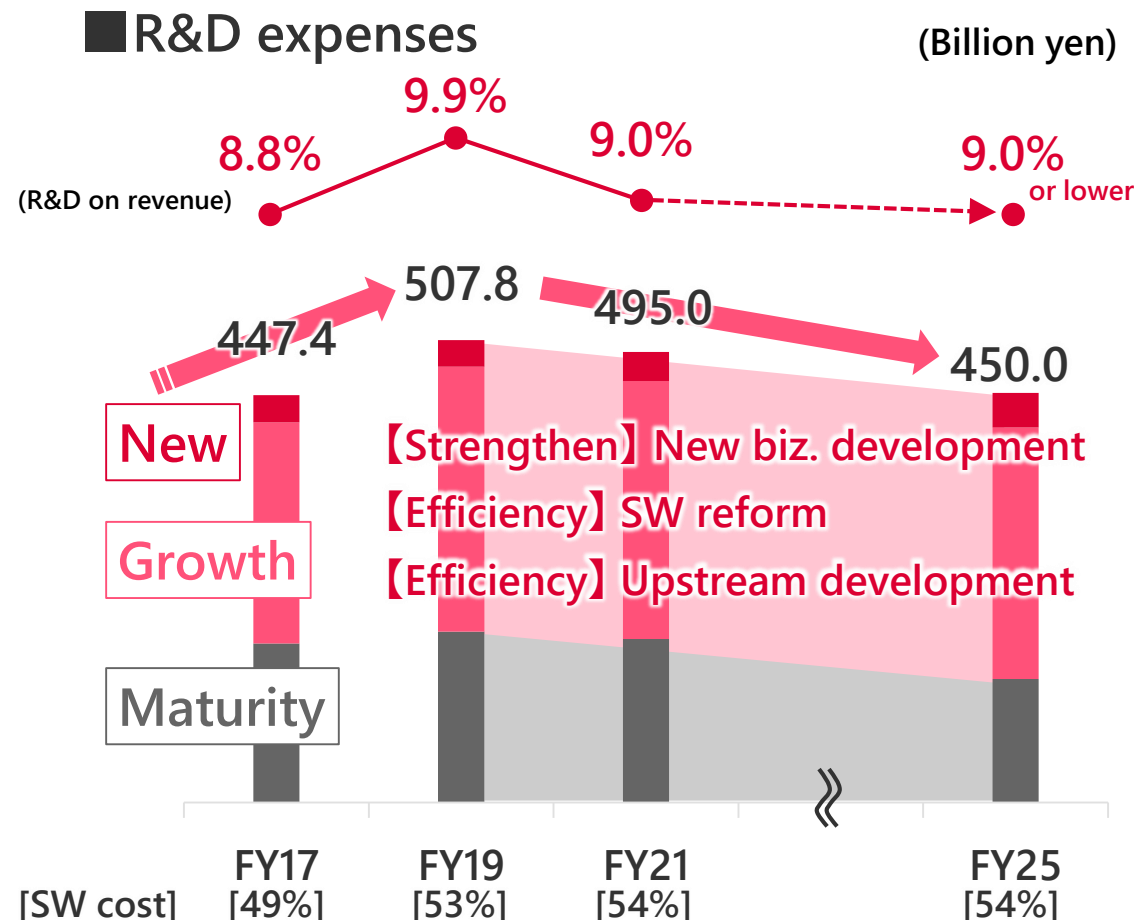
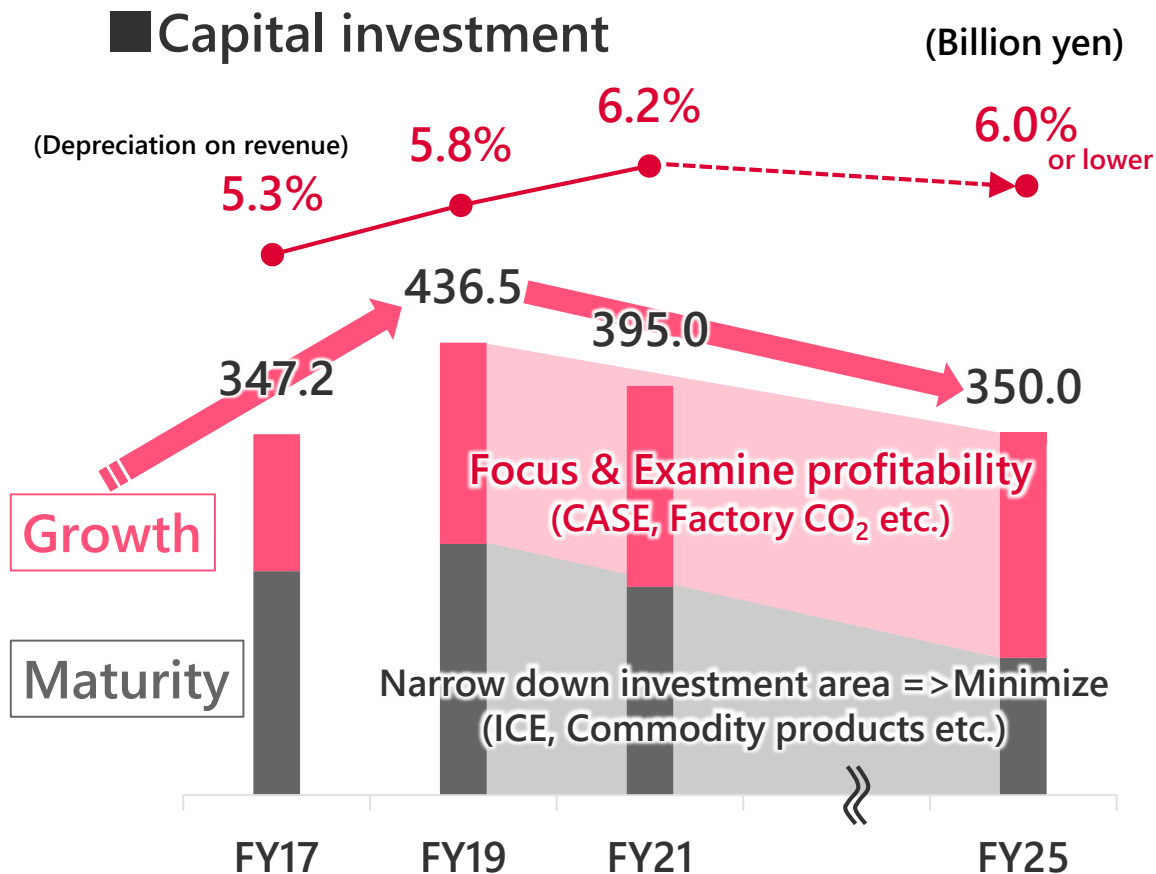
Work on Non-mobility and Non-MONOZUKURI (Non-manufacturing) area by taking advantage of a component technology cultivated by Mobility and M&A/alliance as well as a Mobility area

Resources investment for restrain of fixed cost

HW : Hardware, SW : Software

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



Restriction of low profitability assets

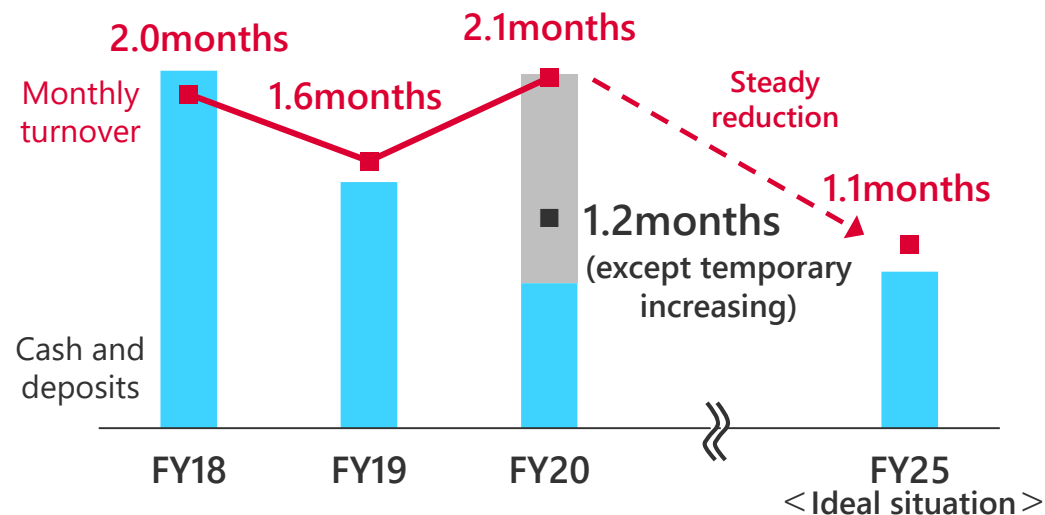
Toward the enterprise value creation, **improve asset efficiency**

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

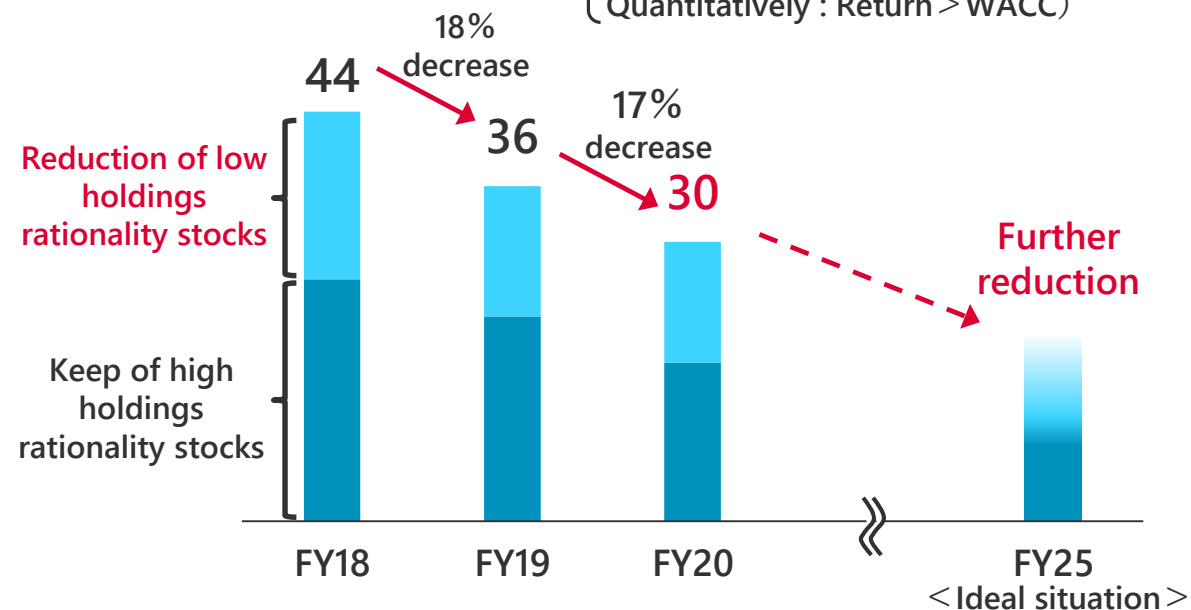


Strategically held shares

- **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

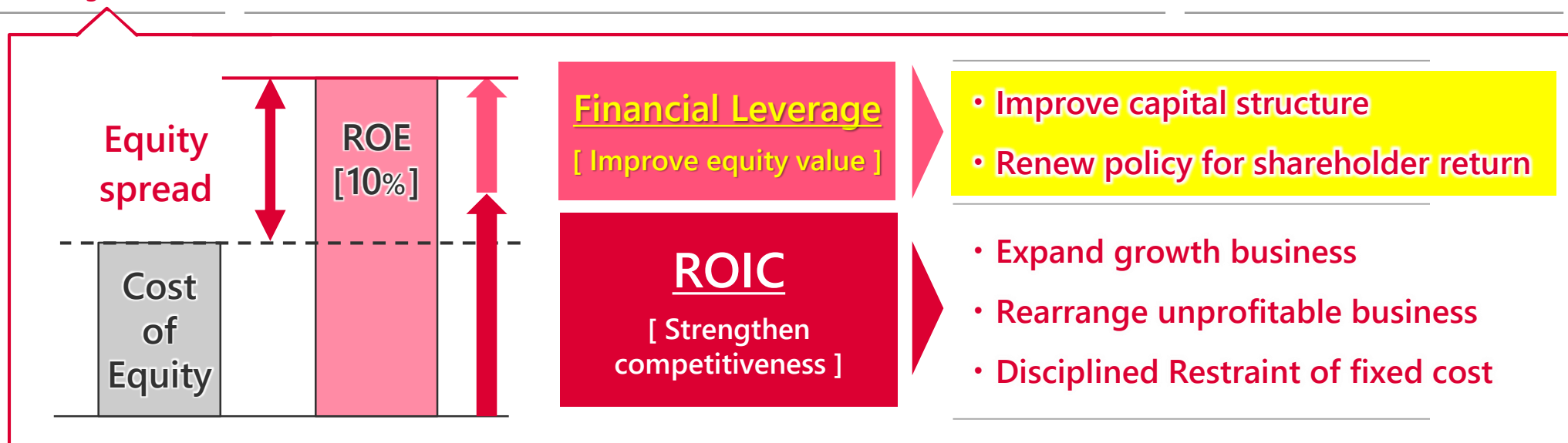
(Qualitatively : Management significance)
(Quantitatively : Return > WACC)



Target for creating corporate value

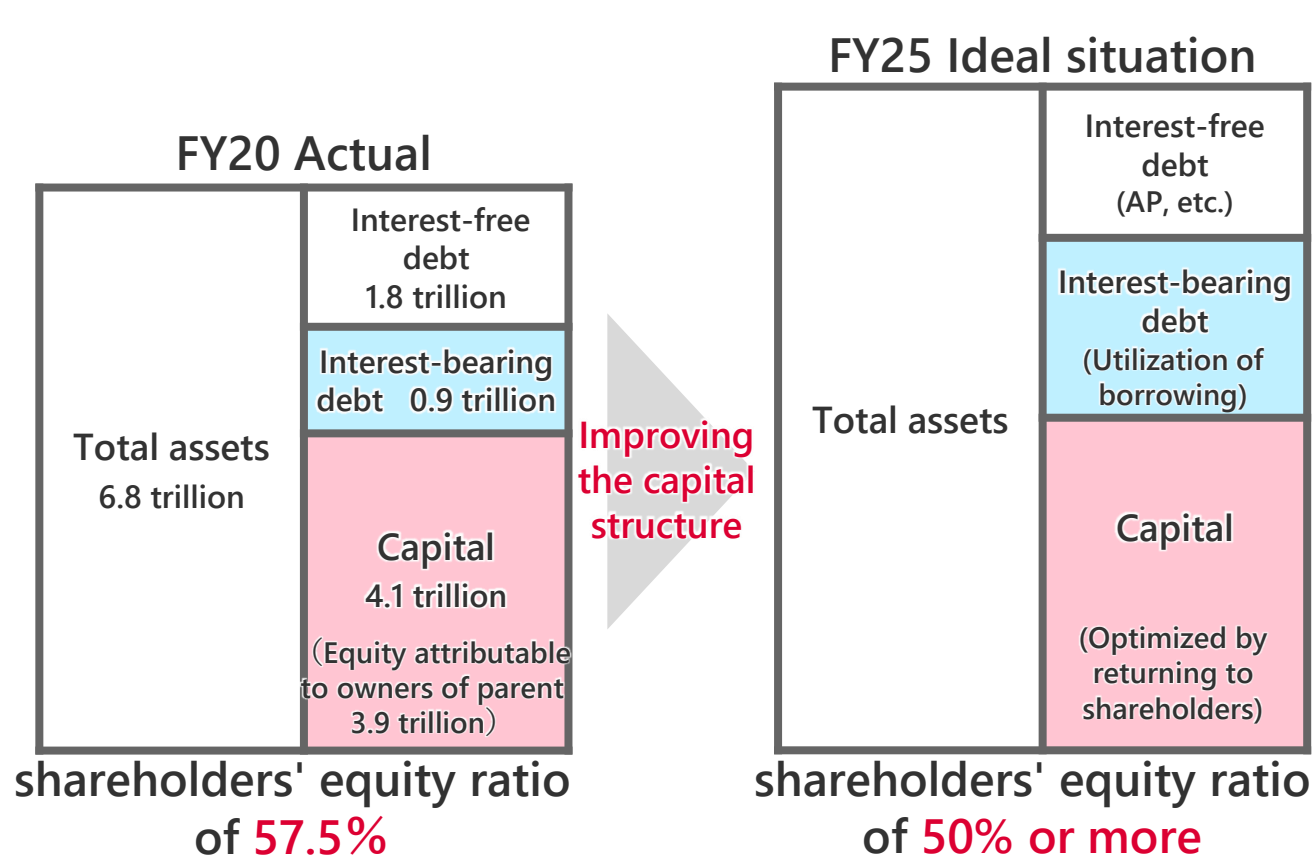
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Target capital structure (financial leverage)

- 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



« 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】

(See next page)

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

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

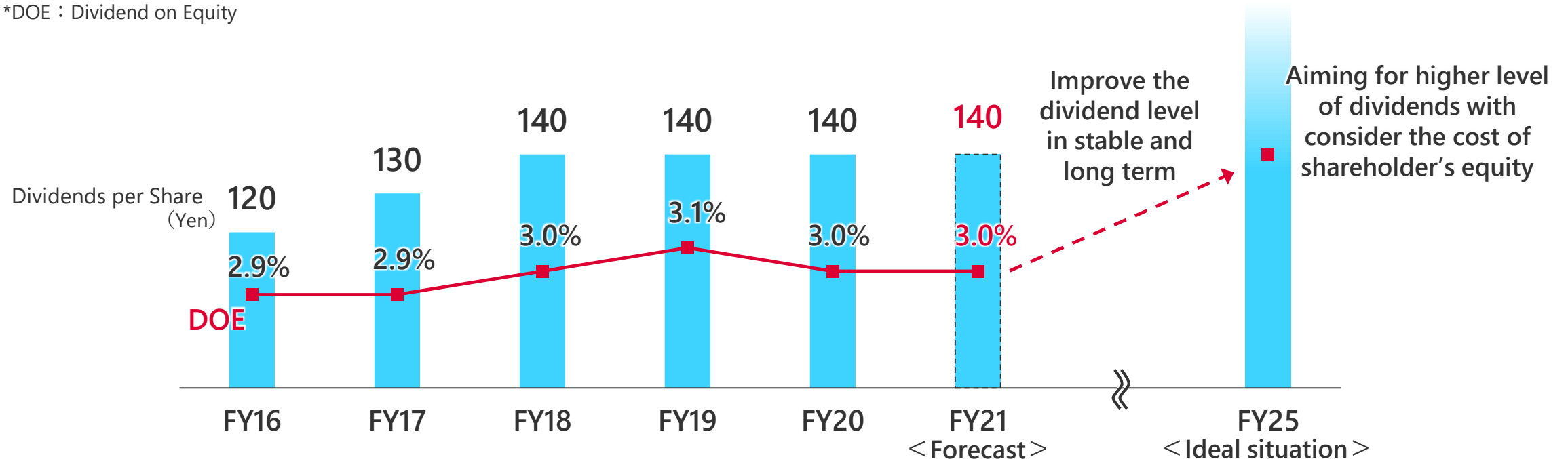
Dividend

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

Treasury Stock Acquired

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

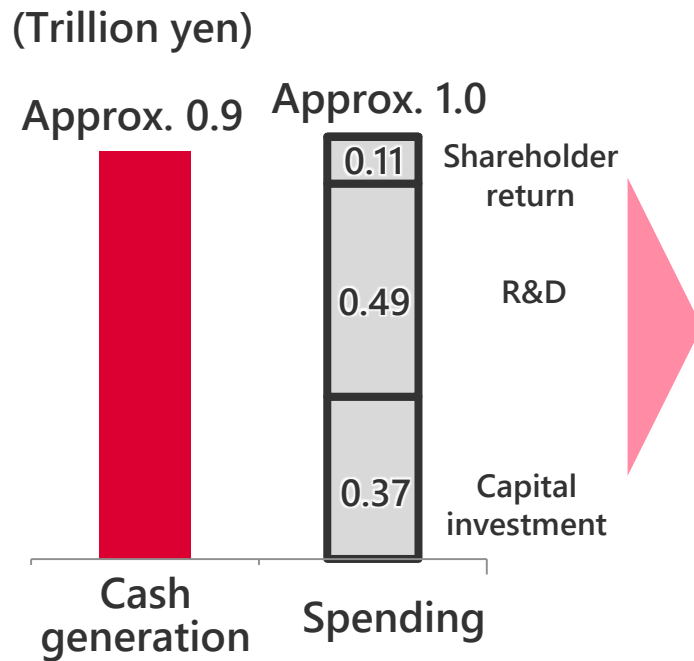
*DOE : Dividend on Equity



Generation and Uses of Cash

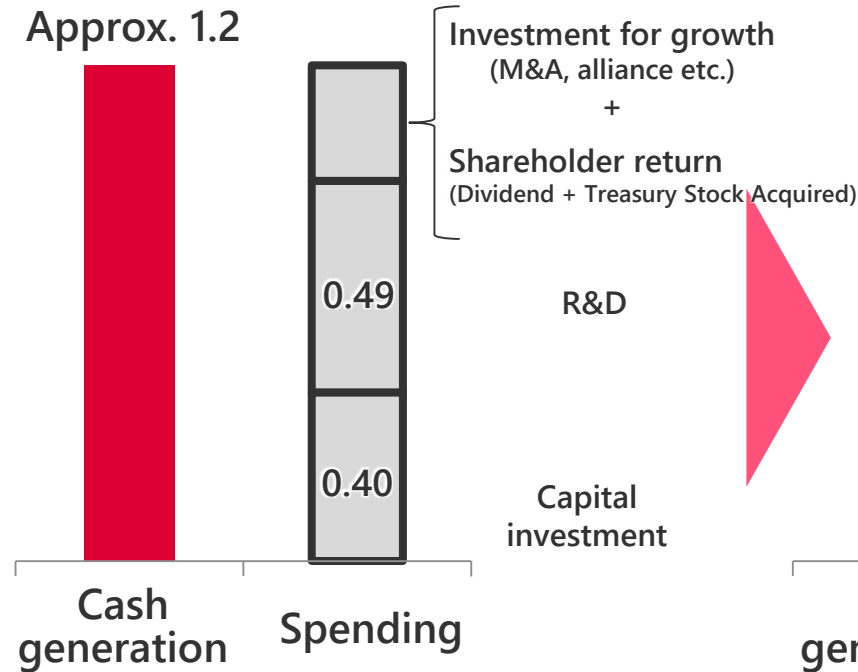
FY20 [Actual]

Revenue: 4.9 trillion yen
OPM: 2.5%



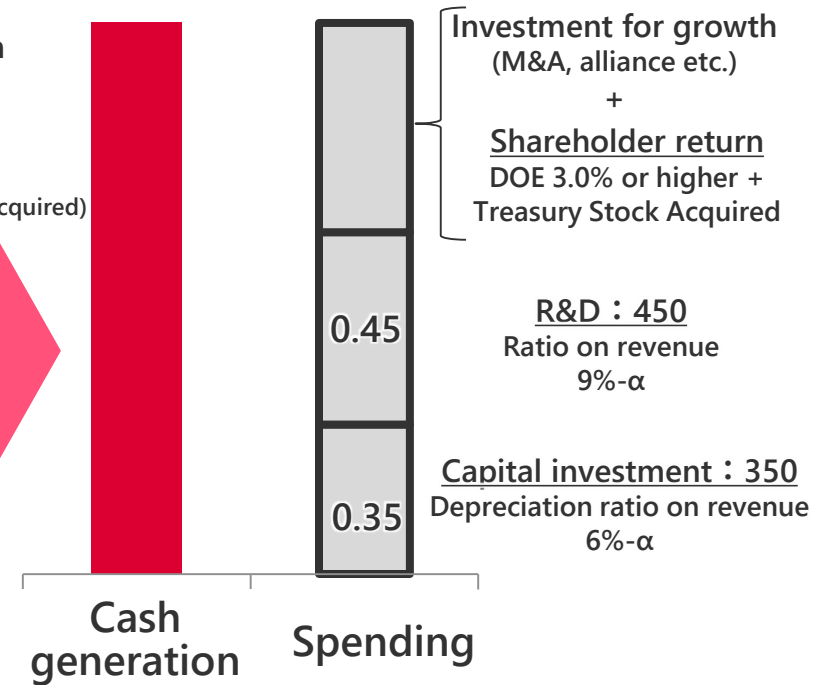
FY21 [Estimation]

Revenue: 5.5 trillion yen
OPM: 7.6%



FY25 [Target]

OPM: 10%



Implement investment for growth & shareholder return proactively by maximizing cash generation

Summary for Financial KPIs

Policy

Expand "Equity spread" for mid-long term

25 Target

ROE > 10%

Category	Item	FY20	FY21	FY25
Profitability	Revenue	4.9 tri. yen	5.5 tri. yen	Sustainable growth
	OPM	3.1%	7.6%	10%
Investment	R&D expenses	492 bil. yen	495 bil. yen	450 bil. Yen
	Capital investment	374 bil. yen	395 bil. yen	350 bil. yen
Shareholder return	DOE	3.0%	3.0%	≤ 3.0%
	Treasury Stock Acquired	--	Flexibly acquire	Flexibly acquire
	Shareholders' equity ratio	57.5%	--	≤ 50%

DENSO

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