



Improving DENSO's Corporate Value

- (1) Sustainability management
- (2) Financial strategy to improve ROE

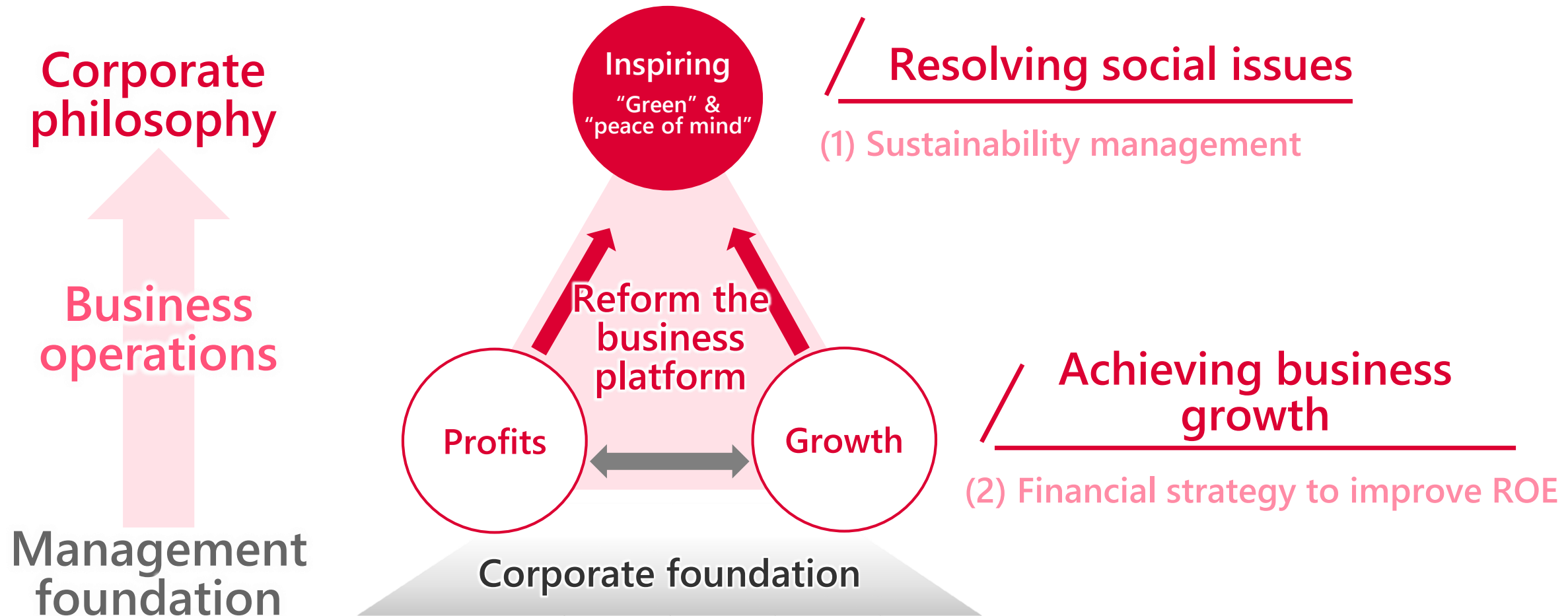
Yasushi Matsui

Senior Executive Officer & CFO
DENSO Corporation

December 15, 2022

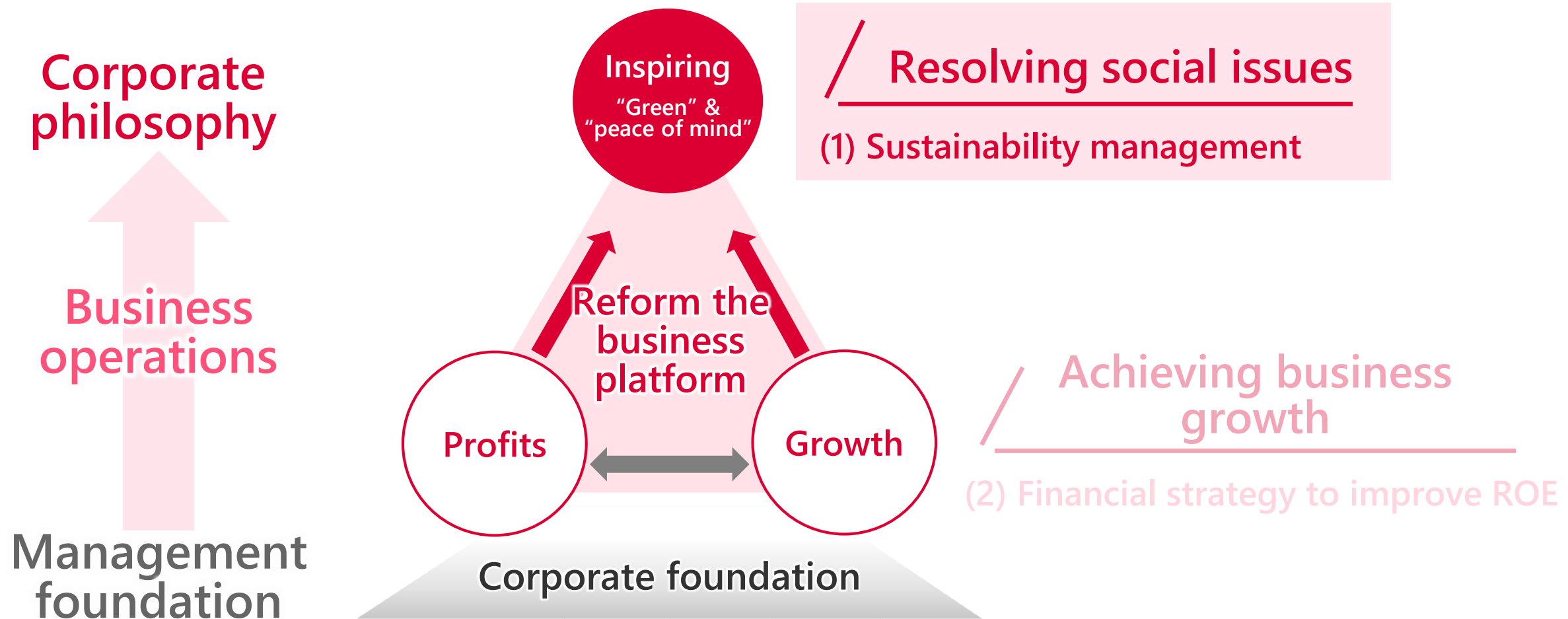


Outline of today's presentation



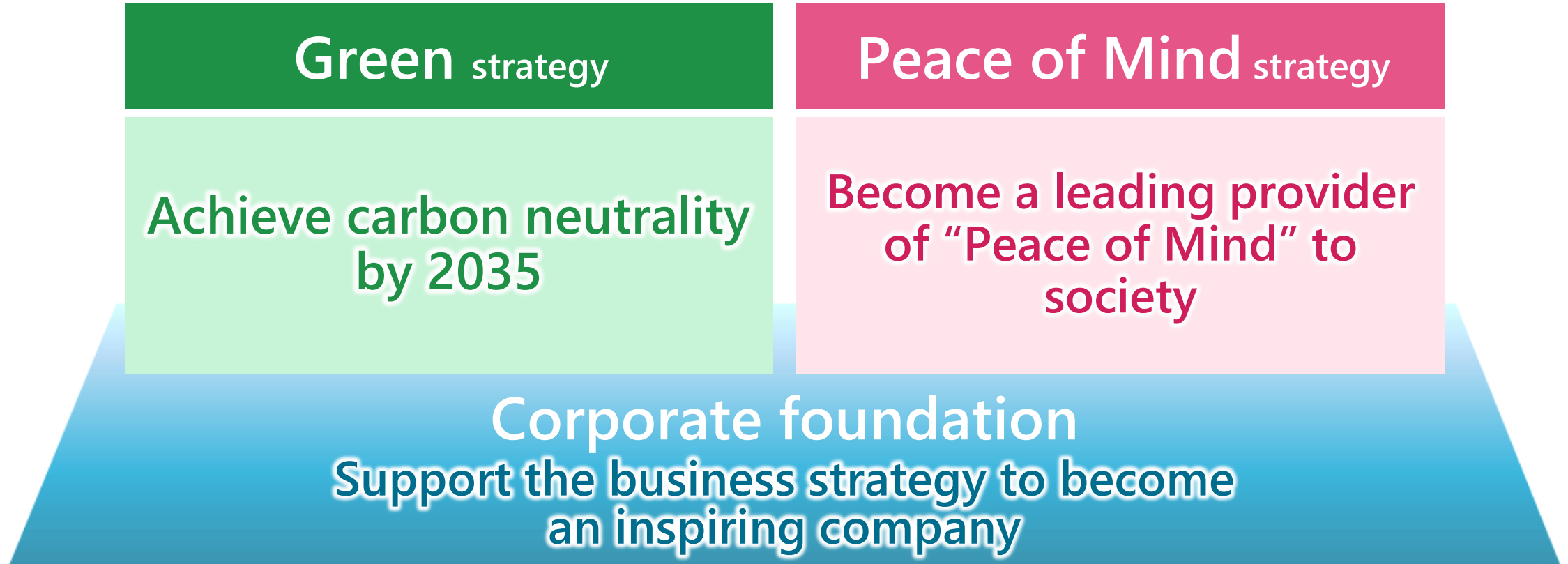
Contribute to solving social issues by continuously reforming the business portfolio and achieving business growth

Outline of today's presentation



Contribute to solving social issues by continuously reforming the business portfolio and achieving business growth

(1) Sustainability management



Maximize the value proposition of "Green" and "Peace of Mind" based on the solid corporate foundation and help create a sustainable society

"Green" and "Peace of Mind" strategies

Green strategy

Achieve carbon neutrality by 2035

	Goal	Main results (Apr. 2021–Mar. 2022)
Manufacturing	Achieve complete carbon neutrality at our plants	<ul style="list-style-type: none"> CO₂ emissions from plants: – 48% (compared to FY2012 level)
Mobility	Contribute to the electrification of cars to reduce CO ₂ emissions	<ul style="list-style-type: none"> Cumulative production of over 20 million inverters Revenue from electrification: 550 billion yen
Energy use	Contribute to a carbon-neutral society by capturing and reusing CO ₂	<ul style="list-style-type: none"> Adopted by the Green Innovation Fund

Peace of Mind strategy

Become a leading provider of "peace of mind" to society

	Goal	Main results (Apr. 2021–Mar. 2022)
Elimination of traffic accident fatalities	Achieve freedom of mobility with no traffic accident fatalities	<ul style="list-style-type: none"> Release of GSP3 (an active safety product) Revenue from ADAS: 320 billion yen
Comfortable spaces	Create peaceful, comfortable spaces	<ul style="list-style-type: none"> Release of a thermal management product for battery electric vehicles (BEVs) (high-efficiency eco heat pump system) released
Support for working people	Establish a society where people are supported and their potential is nurtured	<ul style="list-style-type: none"> Agriculture: Conclusion of a comprehensive agreement on food and agriculture with a local government Factory automation (FA): Release of COBOTTA PRO (a collaborative robot)

Steady progress in maximizing the "Green" and "Peace of Mind" values

Corporate foundation



Sustainability KPIs (non-financial KPIs)

Goal	<ul style="list-style-type: none"> • Instill the practice of sustainability management • Meet stakeholders' expectations 	
Results	Establishment of KPIs for material issues (materiality)	
Specific examples	Main KPIs	
	Green	<ul style="list-style-type: none"> • CO₂ from plants • Popularization of electrification products
	Peace of mind	<ul style="list-style-type: none"> • Popularization of ADAS products
	Corporate foundation	<ul style="list-style-type: none"> • Local employees in leadership roles at overseas bases • Women in management positions

Main results (Apr.2021–)

- Establishment of sustainability KPIs
- Reforms to officer compensation system
- Formulation of human rights policy and implementation of human rights due diligence

Mechanism for attaining the KPIs

Leadership by management team	Goal	<ul style="list-style-type: none"> • Give incentives to improve corporate value over the medium to long term • Give incentives from the viewpoint of stakeholders
	Results	Introduction of sustainability KPIs in the evaluation of executive compensation
	Goal	Change behavior by developing a sense of ownership in sustainability management
	Results	Embedding of sustainability management in global operations
Action by employees	Specific examples	<ul style="list-style-type: none"> • Individuals: Visualization of the link between personal targets and SDGs • Global: Assignment of sustainability leaders in respective regions

Accelerate changes in behavior based on “Sustainability KPIs” and “Mechanisms for attaining the KPIs”

External evaluations and commendations for initiatives

Main SRI/ESG investment indices



2022 CONSTITUENT MSCI JAPAN
ESG SELECT LEADERS INDEX



FTSE4Good



FTSE Blossom
Japan



FTSE Blossom
Japan Sector
Relative Index



Long-term credit rating

Rating agency

Rating

R&I

AAA

S&P

A+

Moody's

A2

(as of December 15, 2022)

Evaluation of IR activities

ディスクロージャー
2021年度 優良企業



証券アナリスト協会
日本証券アナリスト協会

Silver Award of the
WIC Japan Integrated
Report Award



INTEGRATED REPORT AWARD
2022

Evaluations in Japan and overseas



Energy Conservation Grand Prize Award
for 12 consecutive years



健康経営優良法人
Health and productivity
ホワイト500



34 gold medals in total at
the WorldSkills Competition



First runner-up prize of DNIA
"ASEAN Energy Award 2021"
(Indonesia)

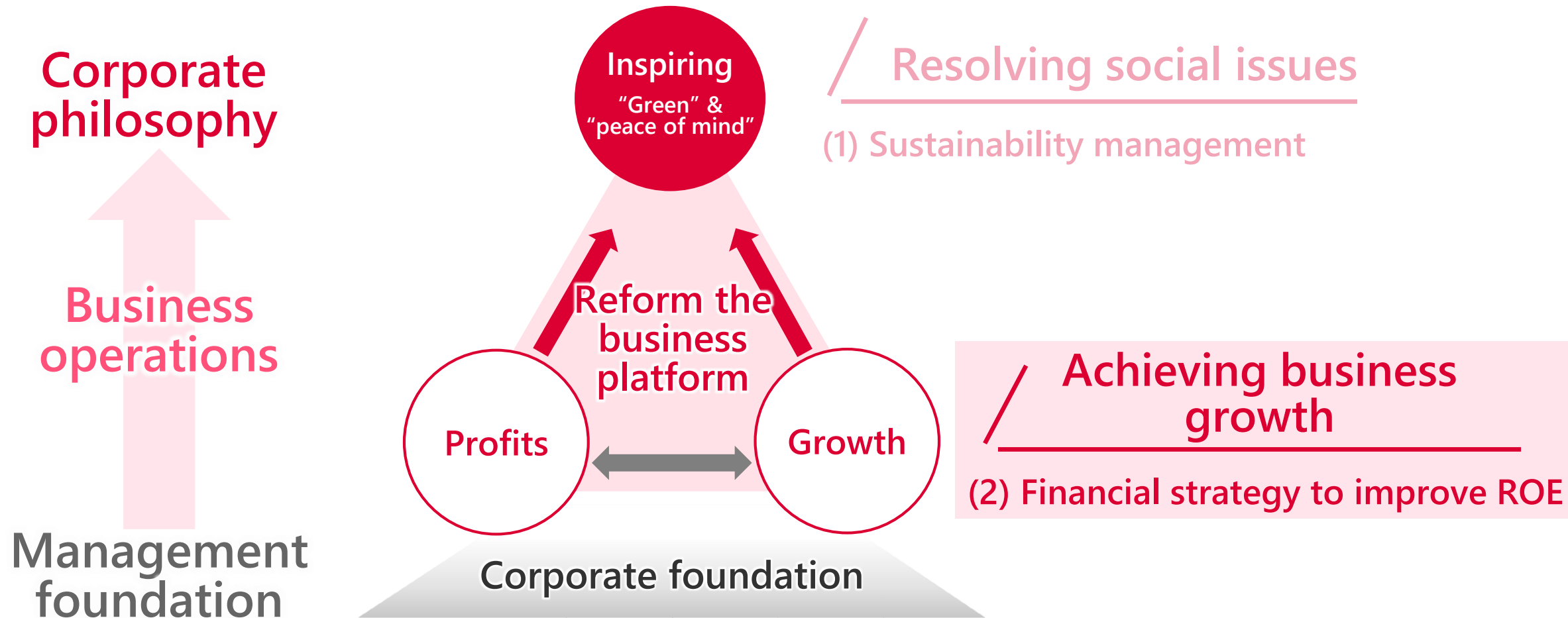


"Industrial Waste Management Award"
(Platinum level) granted to SDM/SKD
for seven consecutive years (Thailand)



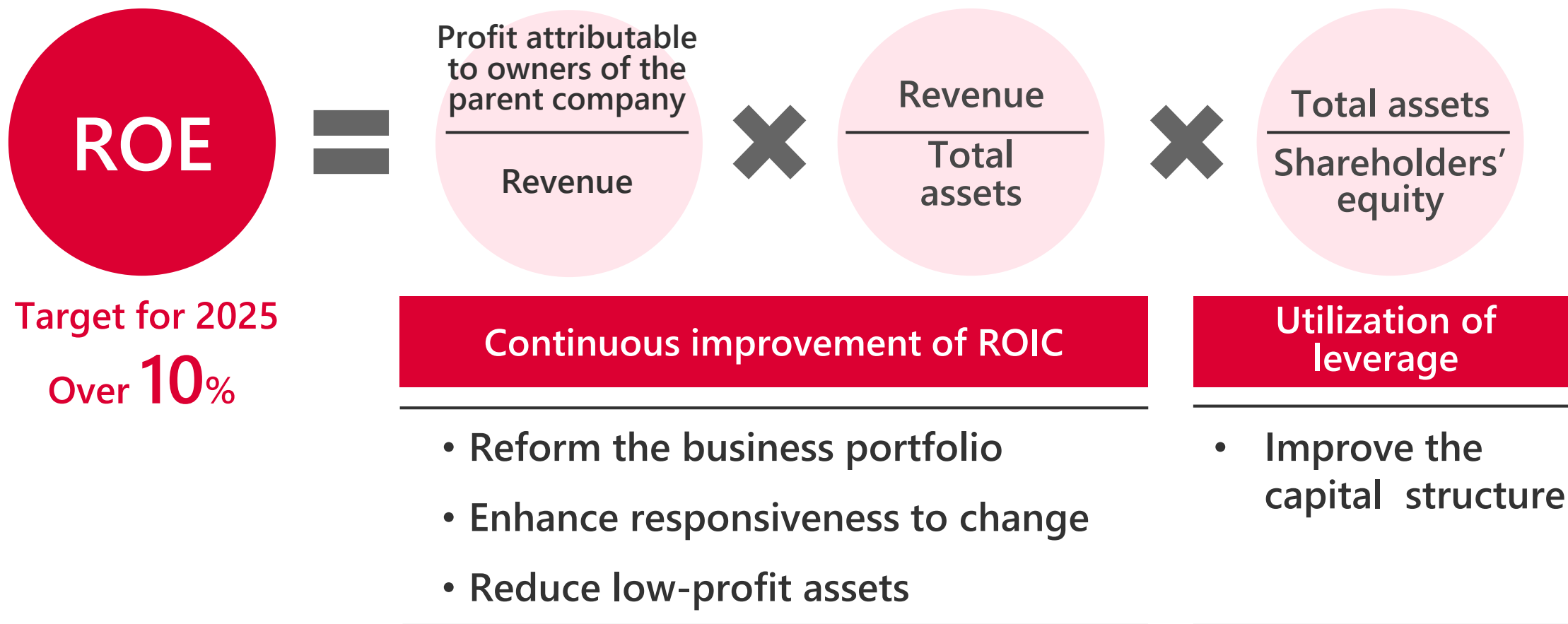
Our business operations have been highly evaluated and
commended by many entities in Japan and overseas

Outline of today's presentation



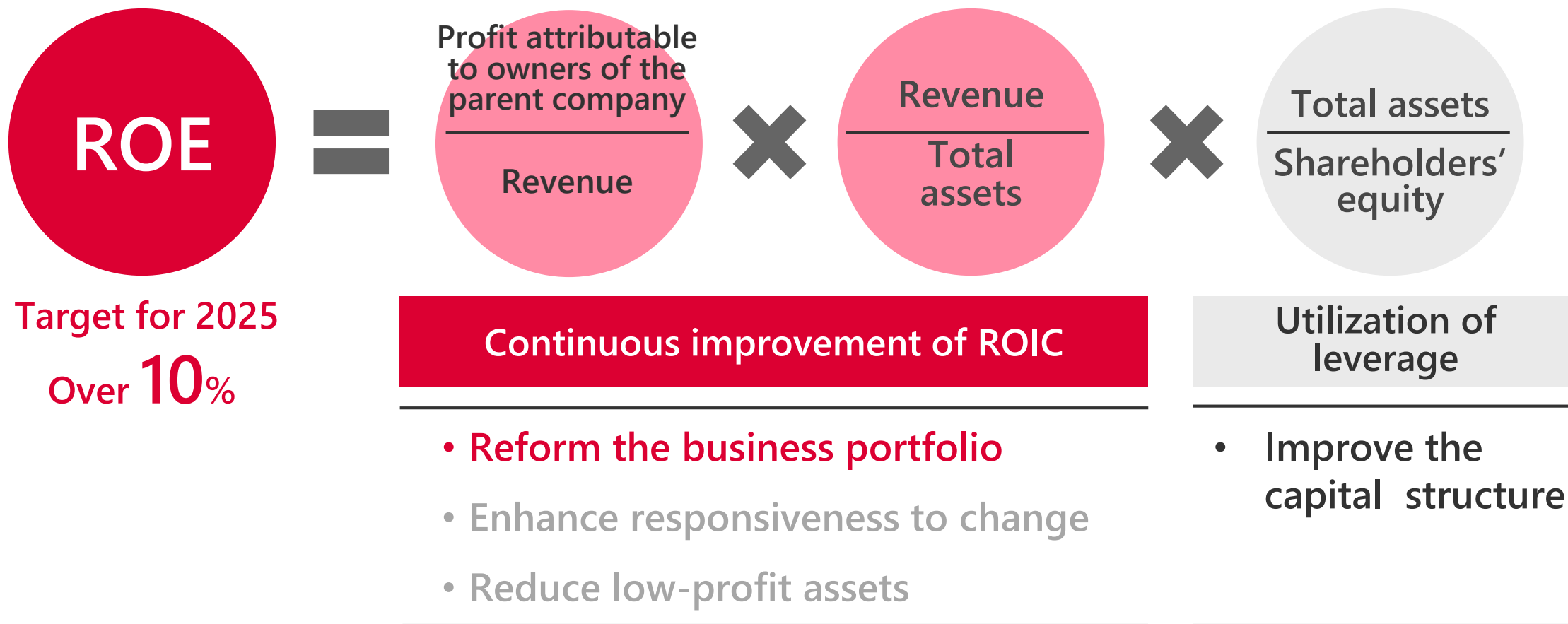
Contribute to solving social issues by continuously reforming the business portfolio and achieving business growth

(2) Financial strategy to improve ROE



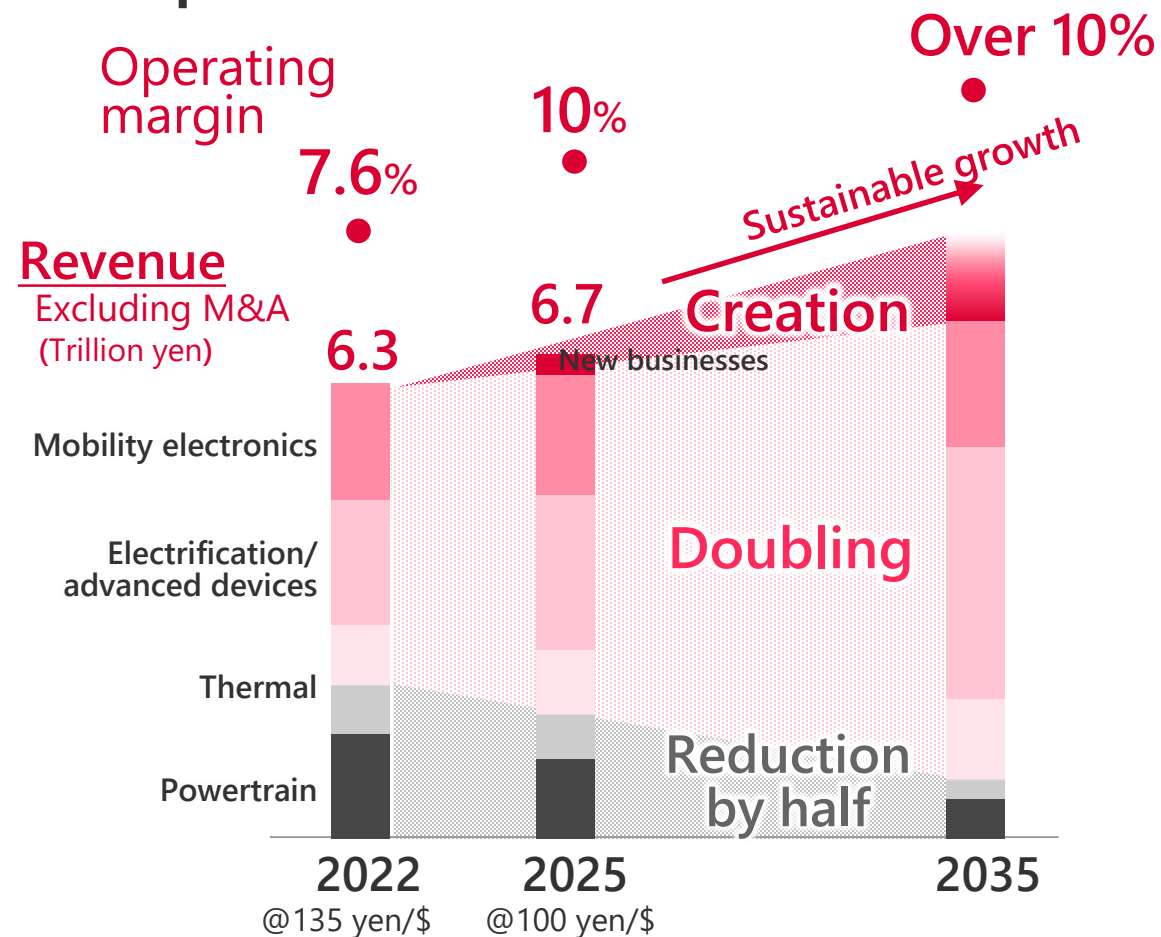
Improve ROIC and use leverage to create corporate value

(2) Financial strategy to improve ROE



Improve ROIC and use leverage to create corporate value

Growth strategy that ensures a balance between management philosophy and profits



New businesses	Investments	<u>Also create new value in the non-automotive domains</u> <ul style="list-style-type: none">- Agriculture, logistics, and FA [300 billion yen by 2030]- Achieve commercialization by connecting the "The Five Flows"
CASE	Expansion	<u>Lead the industry in the CASE field</u> <ul style="list-style-type: none">- Electrification [1 trillion yen by 2025]- ADAS [500 billion yen by 2025]
ICE-related	Businesses nearing final stages	<u>Early discontinuation, including transfer</u> <ul style="list-style-type: none">- Fuel pumps (Aisan), type III alternators (Chengdu Huachuan Electric Parts Co., Ltd.), etc.

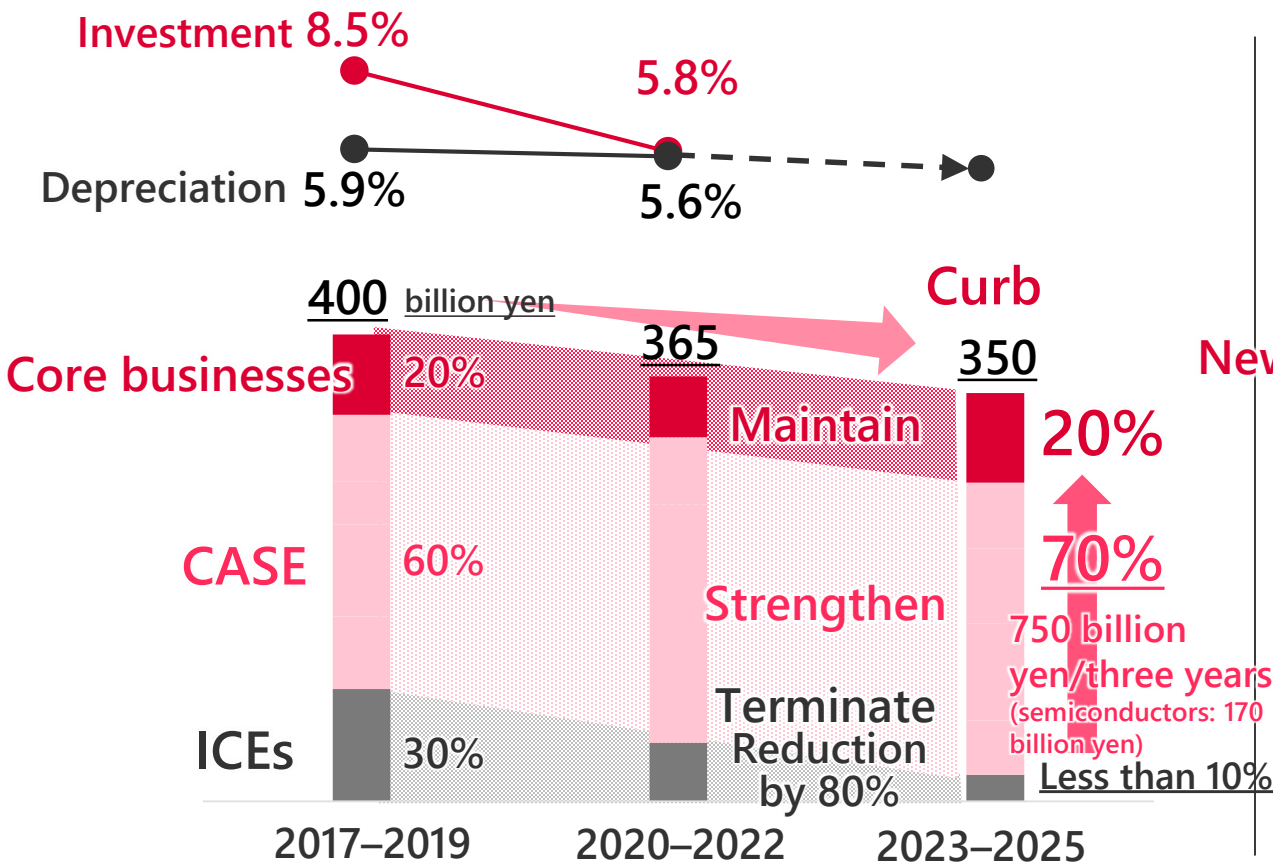
(zero CO₂ emissions/zero traffic accident fatalities)

Contribute to the management philosophy

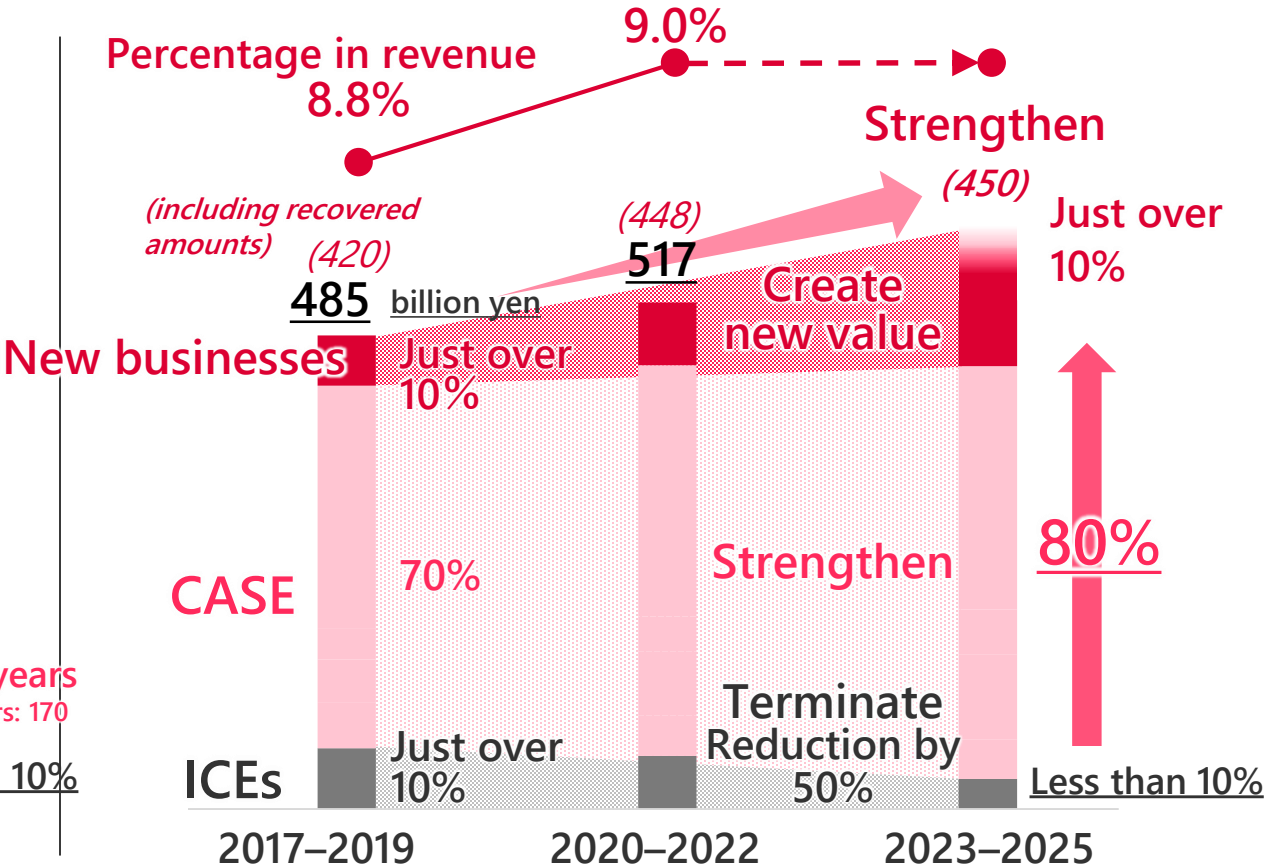
Reduce internal combustion engines (ICEs) by half and double the new business and CASE domains by reforming the portfolio

Resources strategy (capital expenditures and R&D expenditures)

Capital expenditures

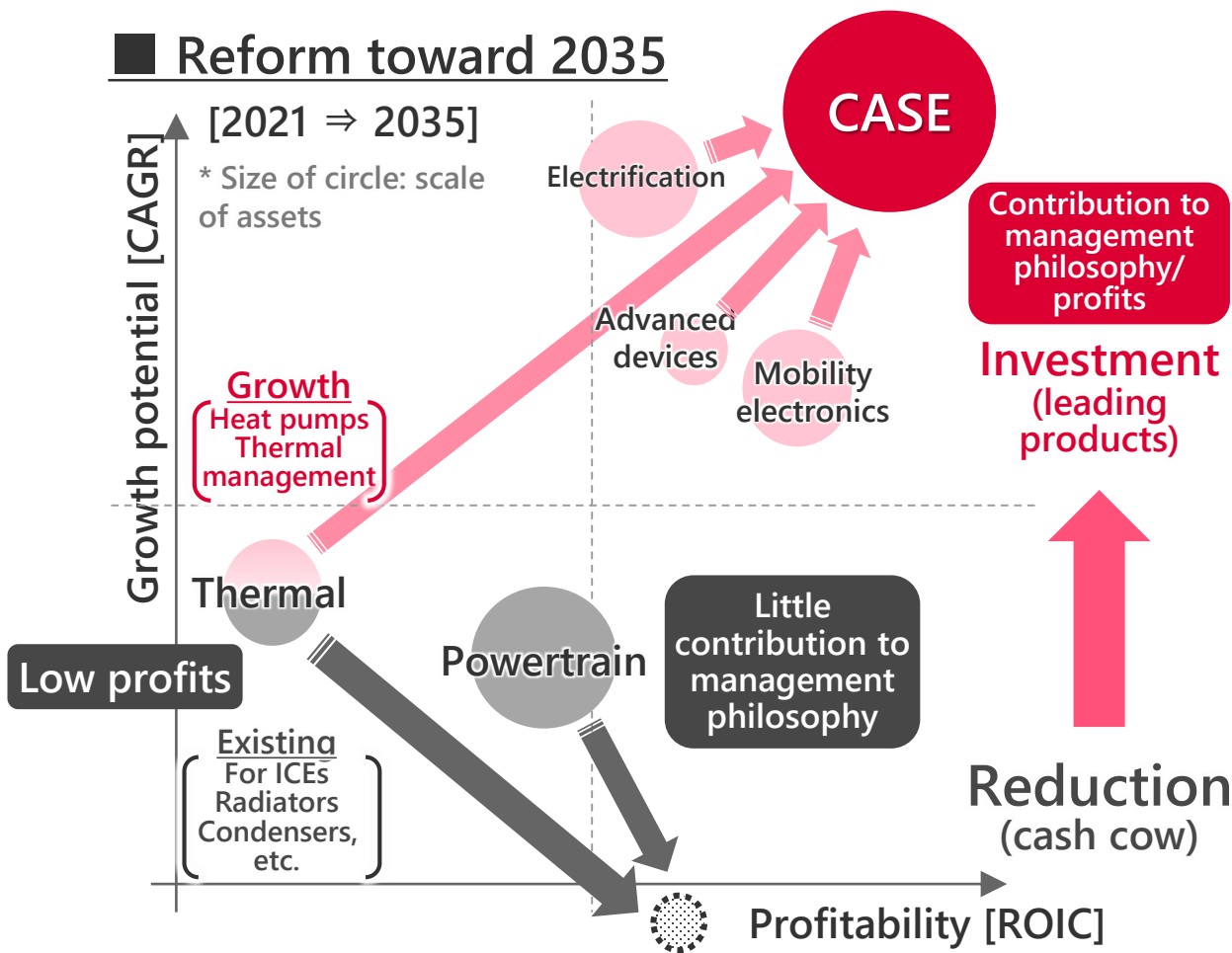


R&D expenditures



Shift investments from ICE to "Green" and "Peace of Mind"

Reform of the business portfolio



Revenue (unit: trillion yen)

* Excluding new businesses

	2021	2025	2035
Mobility electronics	1.5	⇒ 1.6	
Electrification	1.0	⇒ 1.4	
Advanced devices	0.6	⇒ 0.7	
Thermal (growth)	0.9	⇒ 1.1	
Thermal (existing)	0.5	⇒ 0.4	
Powertrain	1.3	⇒ 1.1	

Growth 7 trillion yen

Doubling

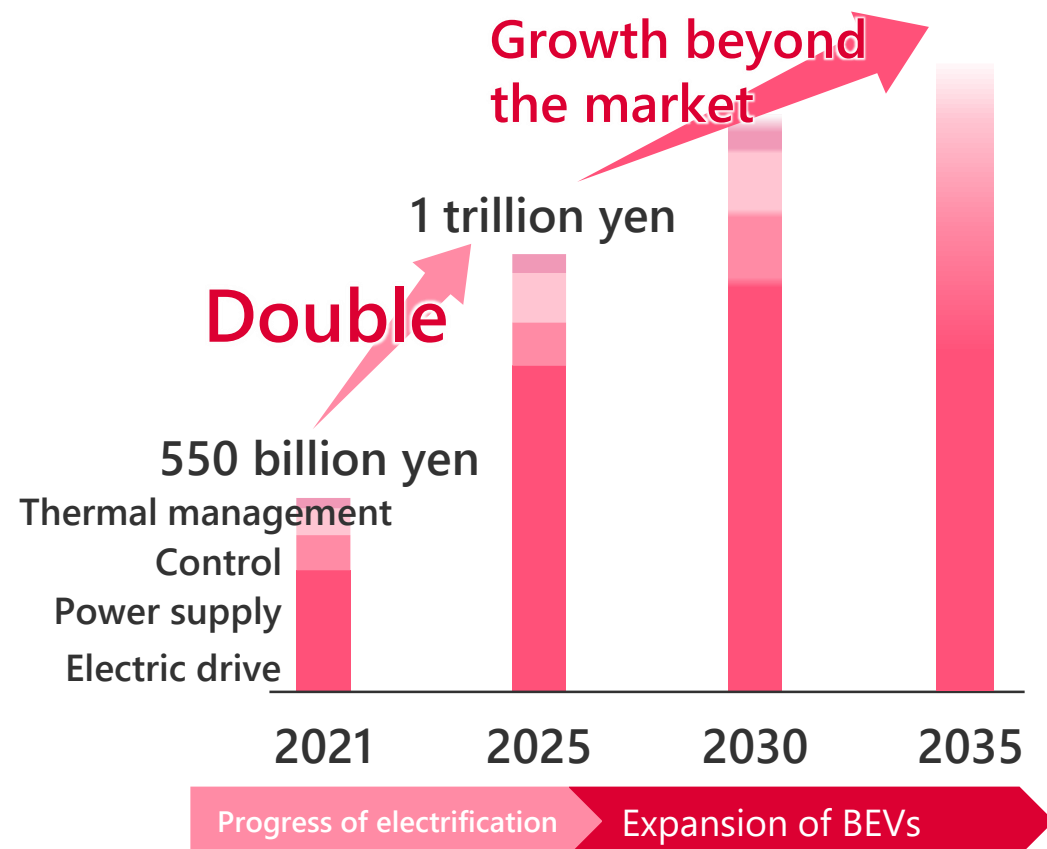
Reduction by half

Businesses nearing final stages 1 trillion yen

Boldly shift to CASE to achieve management philosophy, growth, and profits

CASE domain (electrification)

Sales (growth potential)



Management philosophy

Green

Contribute to electrification of vehicles and reduce CO₂ emissions

Technology development
(energy management)



Product deployment
(sales expansion of electrification products)

Number of products produced
(unit: 1,000 units)

Product	2021	2025	Status of sales expansion	2030
Inverters (Percentage of BEVs)	3,100 (Just under 10%)	12,000 (30%)	Japanese-affiliated companies: 10 European/U.S. companies: 6 Chinese companies: 8	19,000 (50%)
Thermal management	250	2,800	Japanese-affiliated companies: 6 European/U.S. companies: 5 Chinese companies: 3	5,400
Power supply systems (BMUs)	3,900	7,600	Japanese-affiliated companies: 8 European/U.S. companies: 1 Chinese companies: 1	12,700

Products

Control

Inverters [high electric mileage]

Thermal management products [energy transfer]

Power supply systems (BMUs)
[improvement in electric mileage]

BEVs

- ✓ Comfortable spaces
- ✓ Extended driving range
- ✓ Faster charging

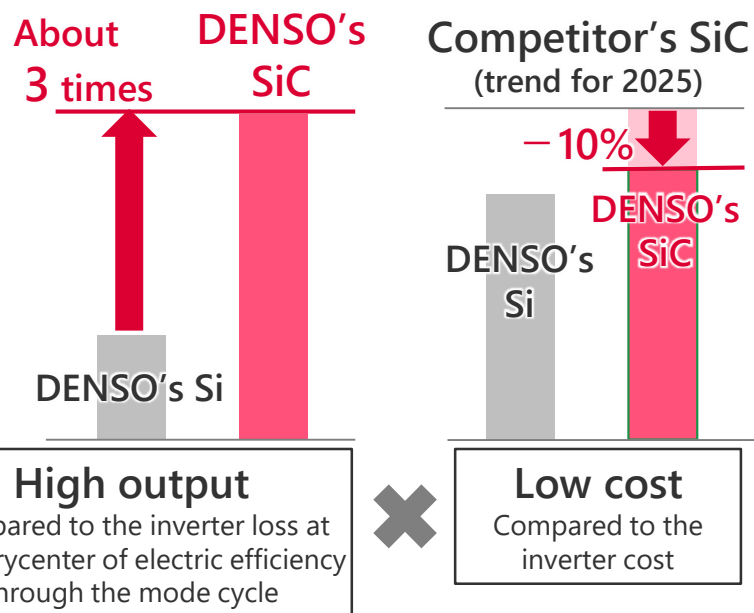
Offer an extensive product lineup to cope with progress of electrification and expansion of BEVs

CASE domain (electrification)

Competitive advantages

High output: 3 times higher than Si
Low cost: — 10% (compared to a competitor)

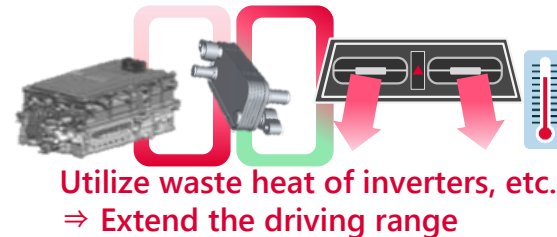
SiC inverters



Extend the driving range by 20%
(compared to using an electric heater)

Thermal management products

Utilization of waste heat



Battery temperature adjustment



Transfer of thermal energy across subsystems

Extend the driving range by 7%
(compared to a competitor)

Power supply systems (BMUs)



Improve by 50%
from the current level



Downsize by 15%
from a competitor



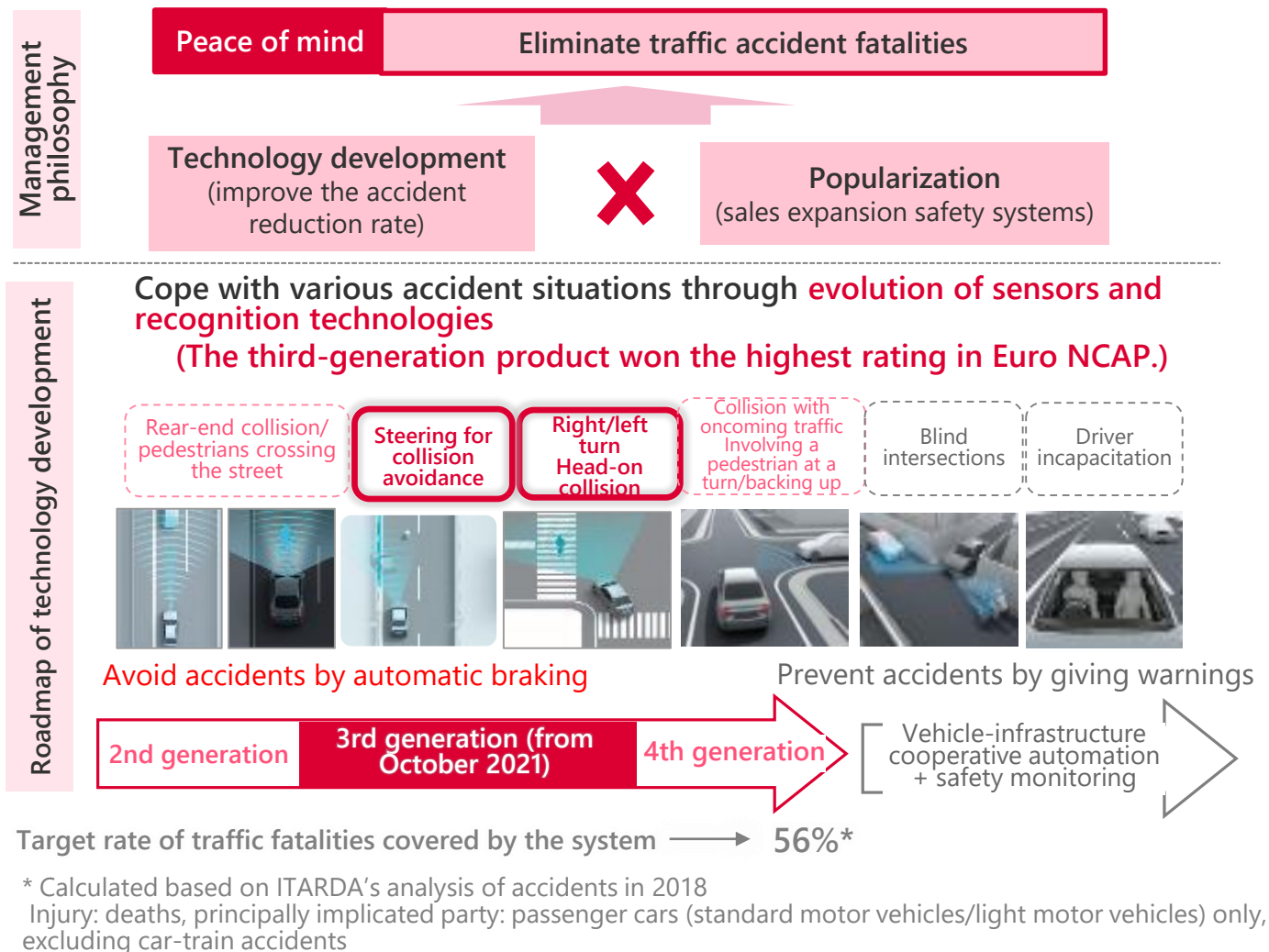
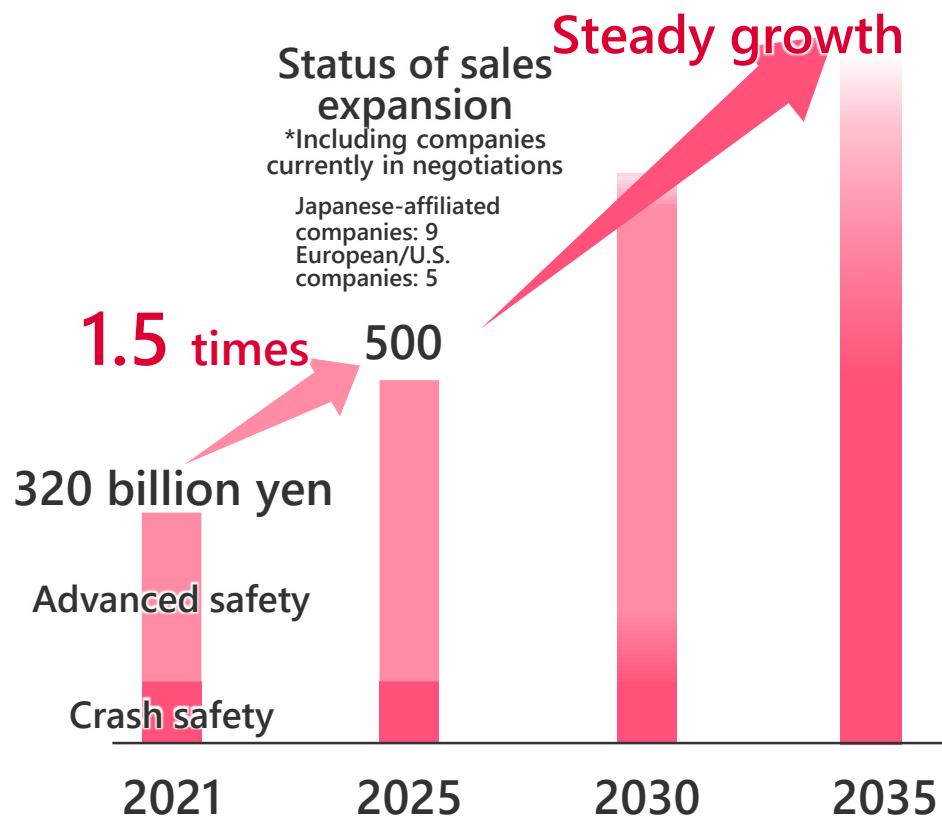
Increase the degradation estimation accuracy by 5%



Properly meet the demand for BEVs based on energy (electricity and heat) management technology

CASE domain (ADAS)

Sales (growth potential)

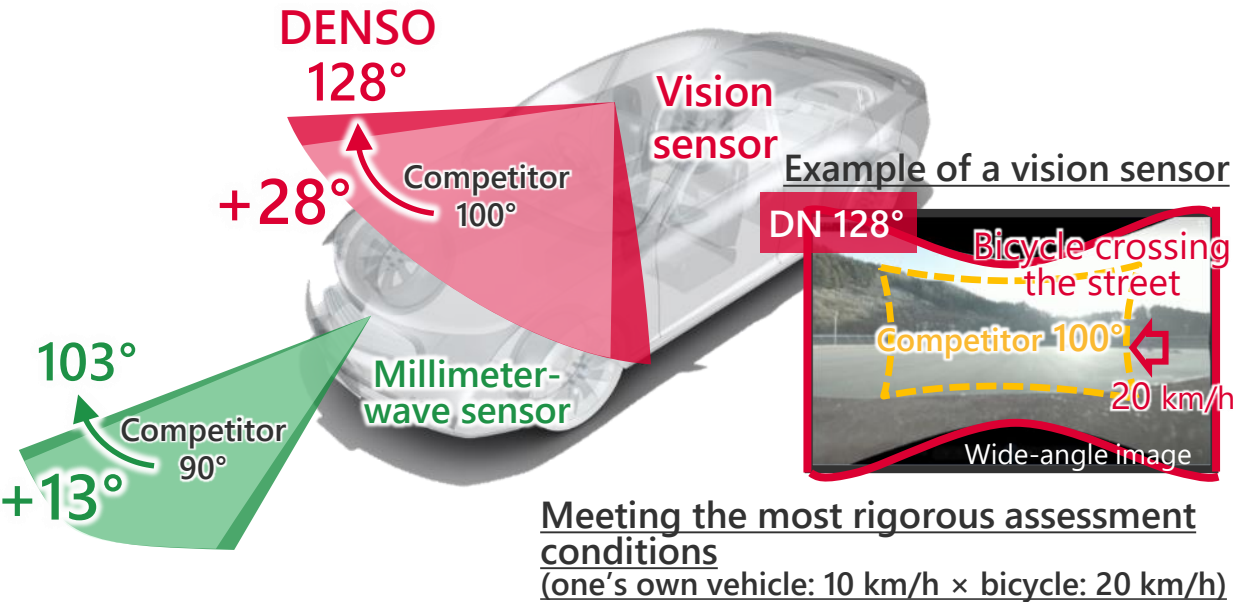


Contribute to eliminating traffic fatalities through technology advancement and spread of products

CASE domain (ADAS)

Competitive advantages

Sensor performance	Detect objects over a wider range to cope with pedestrians/bicycles abruptly crossing the street	Image recognition technology	Achieve high-speed processing of wide-range image data to improve detection performance
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Old: Identify objects
Individually check against the dictionary (storage data)

Sign
Pedestrian
Vehicles

Recognition of pedestrians, bicycles, vehicles, etc. as obstacles

New: Understand the situation
AI learns the entire image (deep learning).
⇒ Understand the relationship, such as size and direction

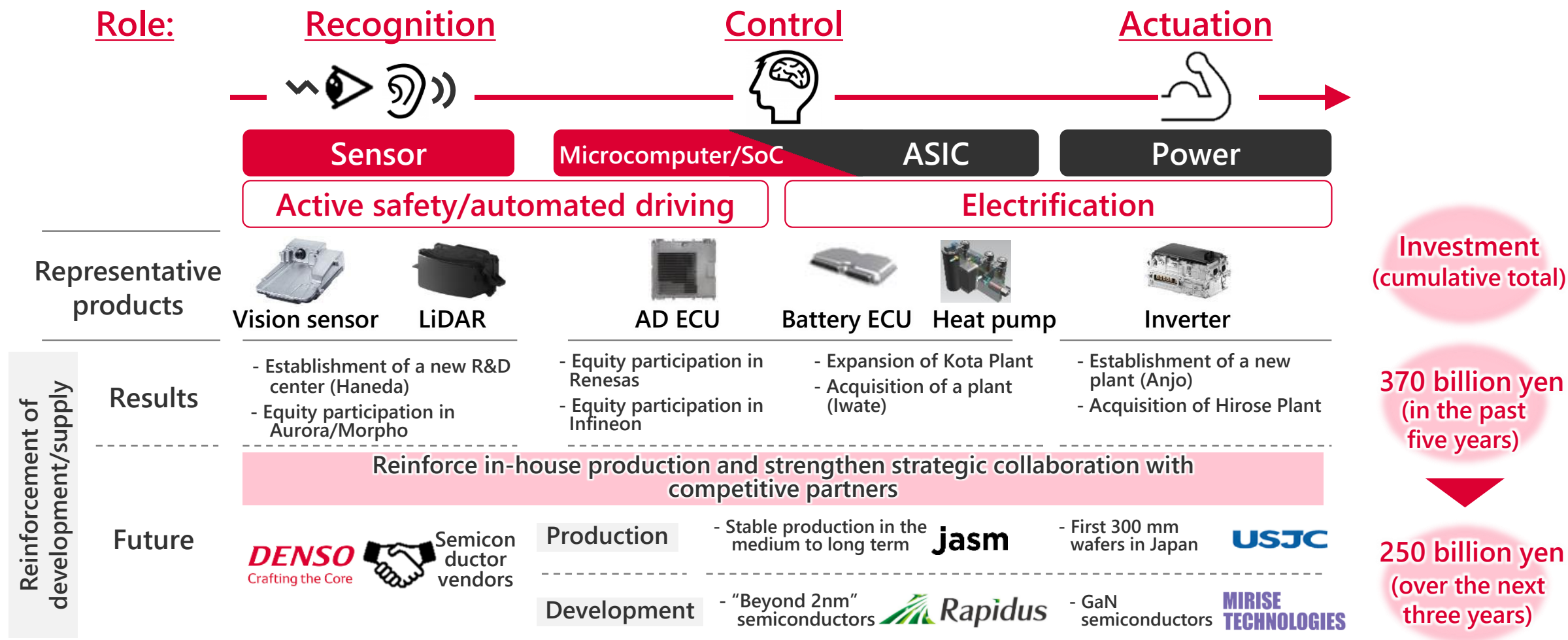
3D object
Pedestrians
Vehicles
Sidewalk
Road

Urban area, a man and a woman crossing the street
→ Risk estimation based on mutual relationship

Apply to sign detection and next-generation automated driving technologies

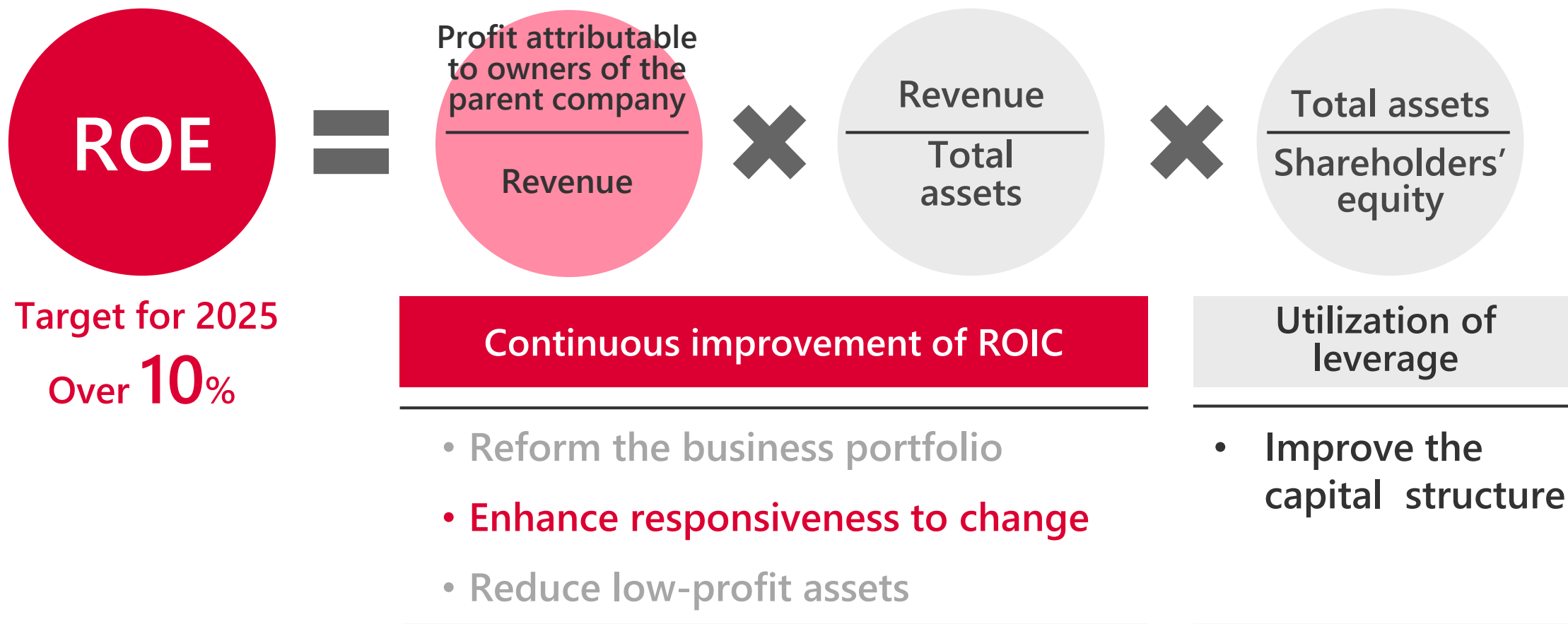
Continue to deliver "Peace of Mind" and safety to people by using proprietary technologies that meet present and future requirements

Semiconductor strategy that underpins the CASE domain



Strategically cover all the domains based on in-house production and collaboration with partners

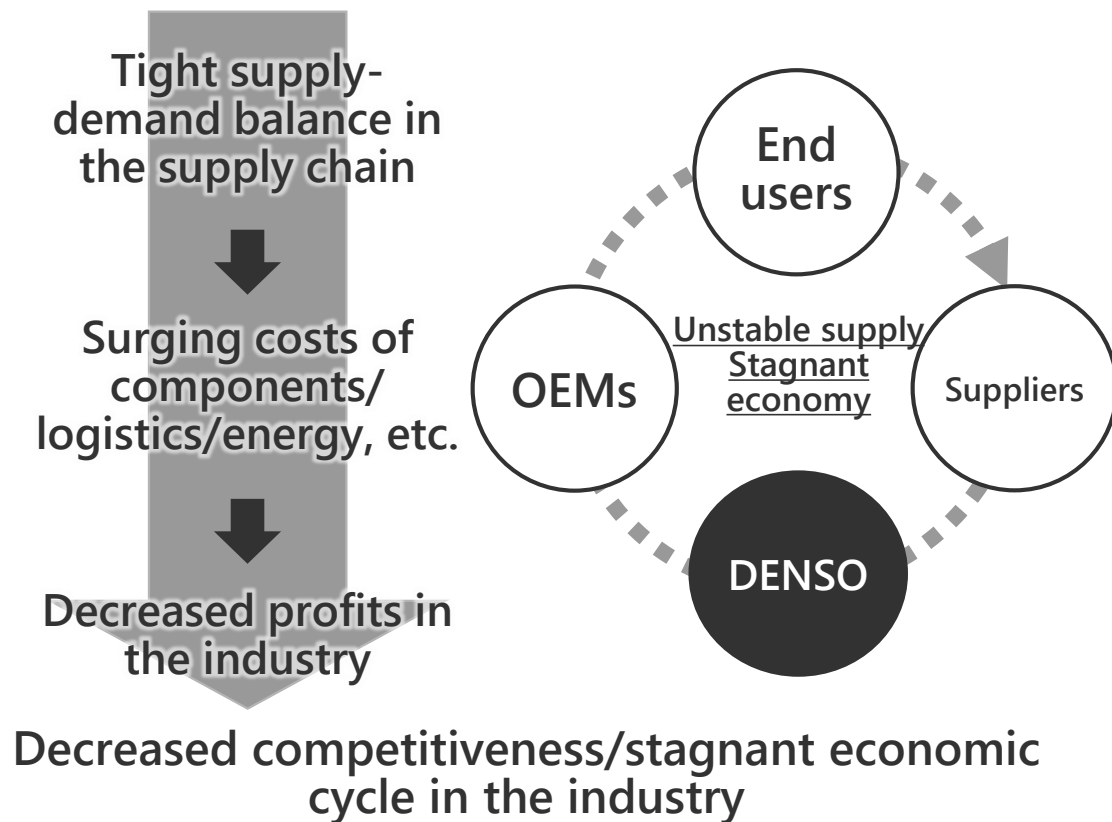
(2) Financial strategy to improve ROE



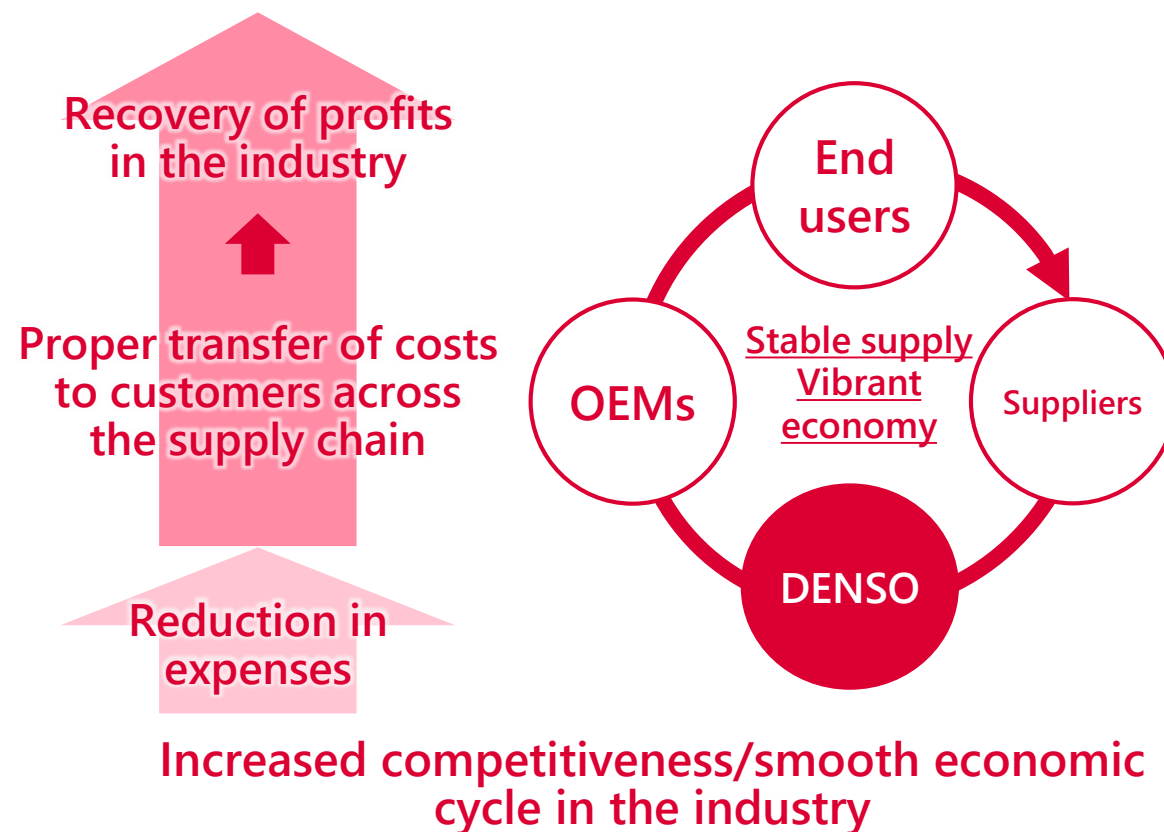
Improve ROIC and use leverage to create corporate value

Recognition of the current situation and ideal situation in the automotive industry

Recognition of the current situation [negative direction/negative cycle]



Ideal situation [positive direction/positive cycle]

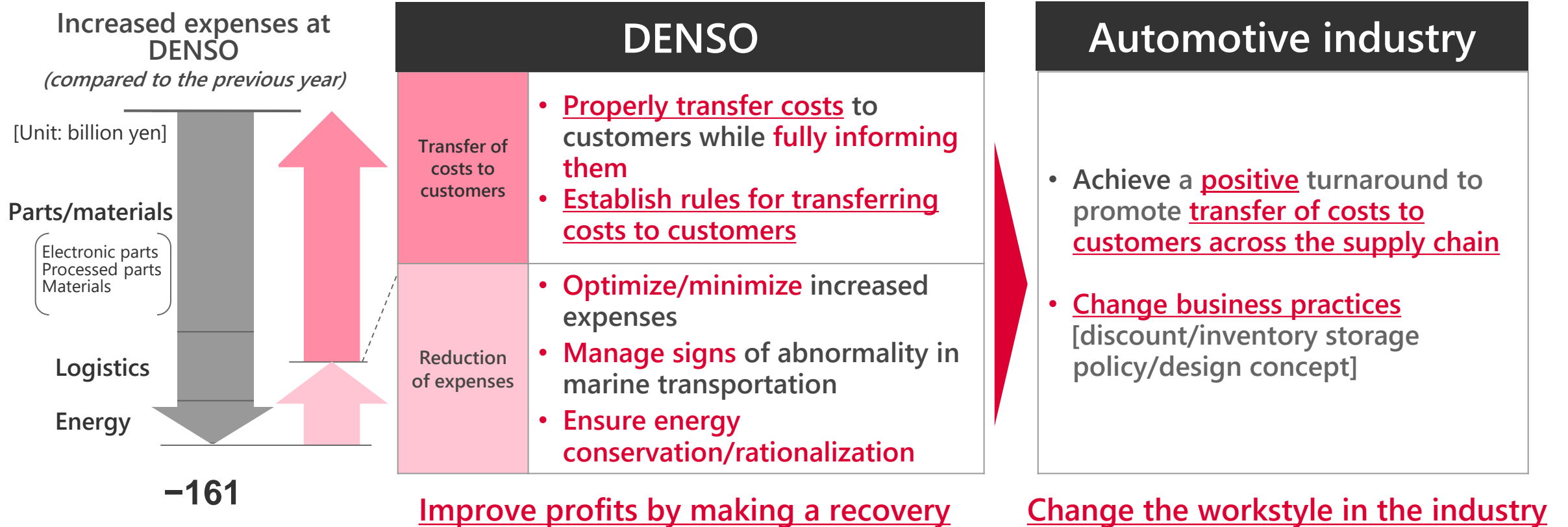


Contribute to increased competitiveness and smooth economic cycle in the automotive industry

Specific efforts to enhance responsiveness to change

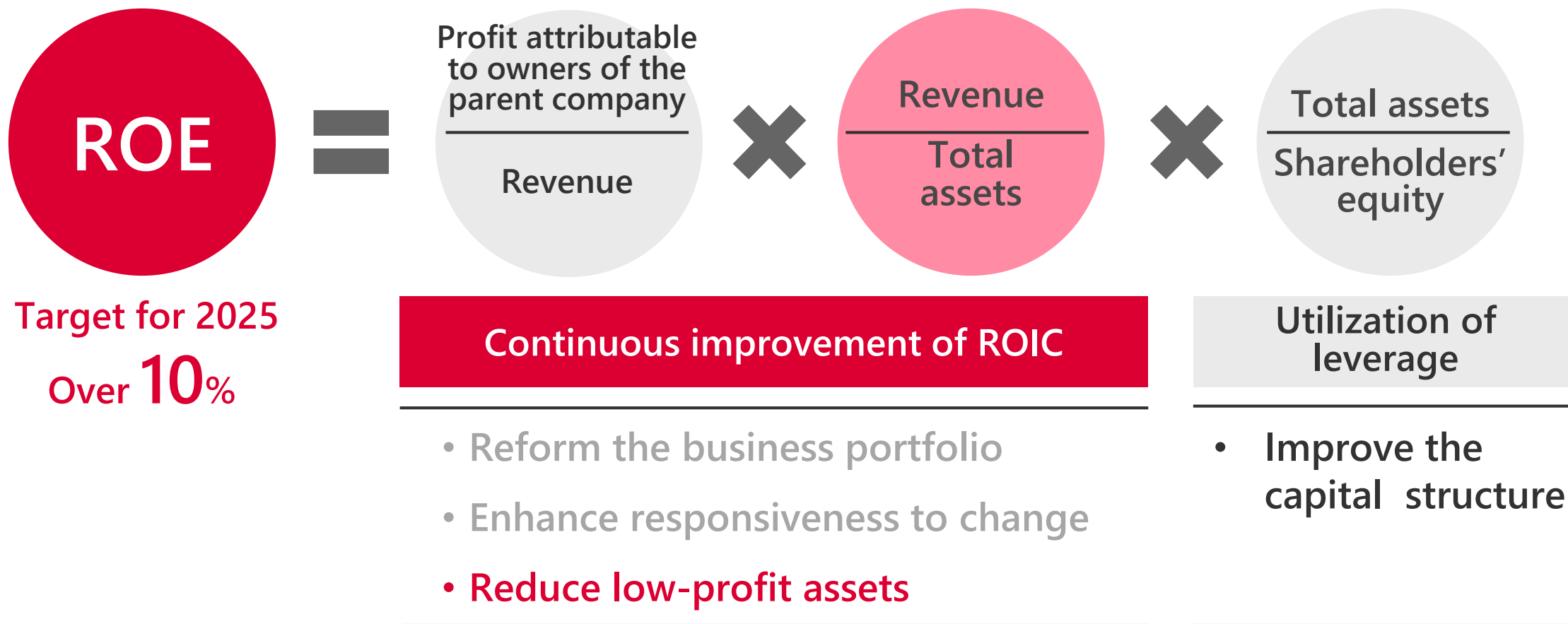
Basic policy

Increase profits in response to worsening external conditions by “reducing expenses” and “transferring costs to customers”



Improve profits and change the workstyle in the industry

(2) Financial strategy to improve ROE



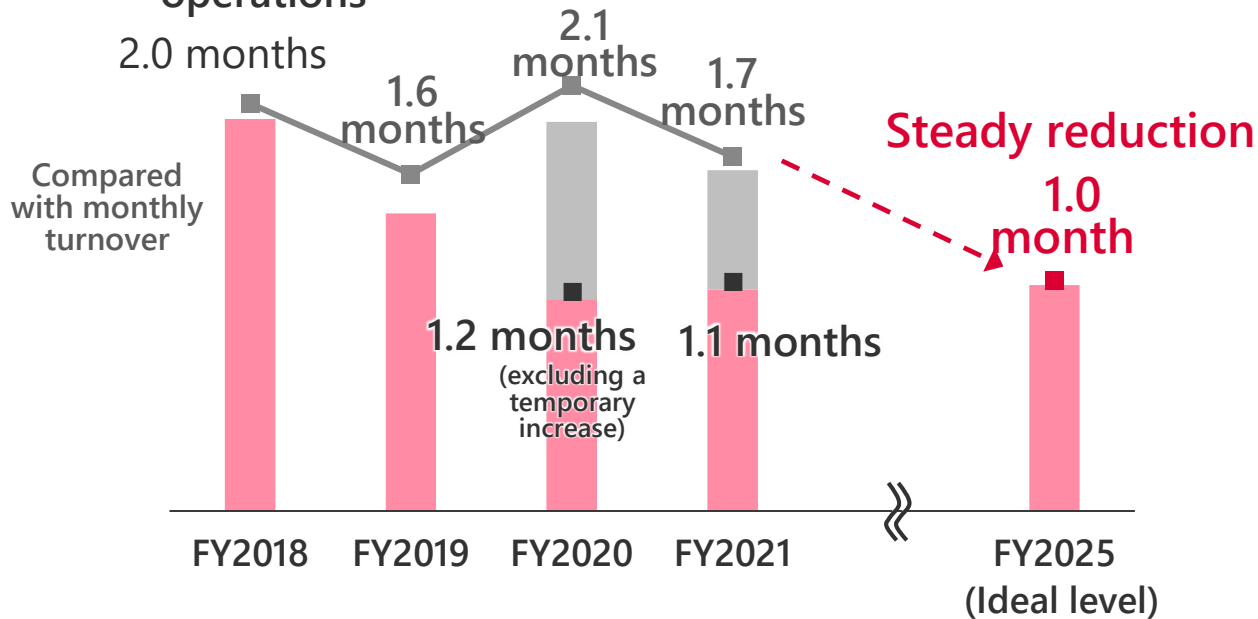
Improve ROIC and use leverage to create corporate value

Cash on hand/cross-shareholdings

Cash on hand

Target: **1.0 month** (compared with monthly turnover)
(further reduction after attaining the previously announced target of 1.1 months)

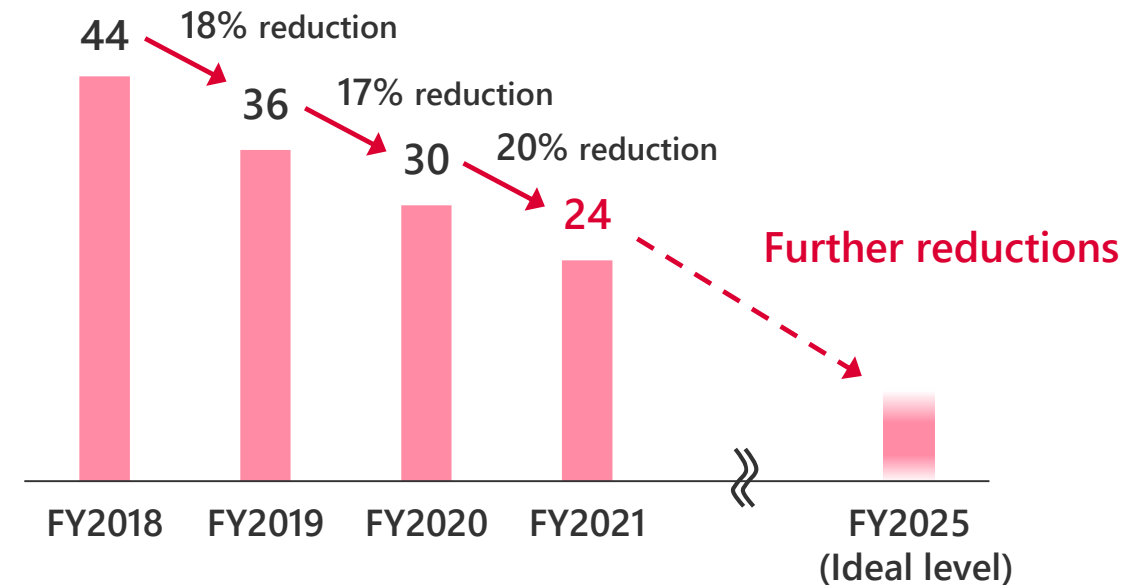
- Minimization of cash on hand required for business operations



Cross-shareholdings

DENSO sold holdings of **20 companies** in the past three years

- Generation of cash by further reductions (FY2021: 54.6 billion yen)



Steadily reduce low-profit assets and improve asset efficiency

Global inventories

Basic policy

- Secure the necessary inventories required for stable production across the supply chain and build a solid BCP
- Continuously reduce and optimize inventories in line with dissipation of operating environment factors (FY2023: 800 billion yen, 1.6 months compared with monthly turnover)

Concept of inventory management: **determination of the target level for different types of inventories**

Temporary inventories

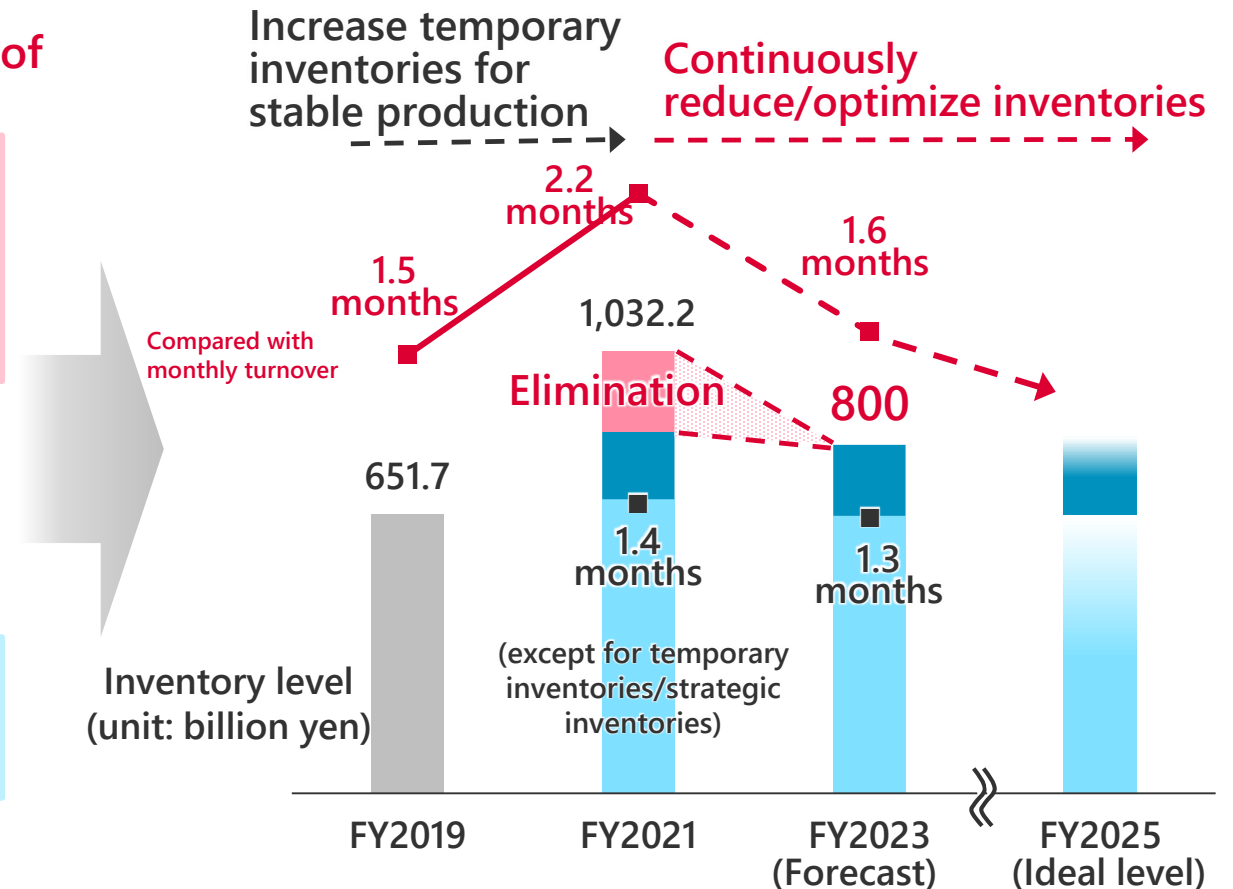
In response to logistics disruptions and other operating environment factors
⇒ **Eliminate** temporary inventories by quickly reflecting the operating environment factors

Strategic inventories

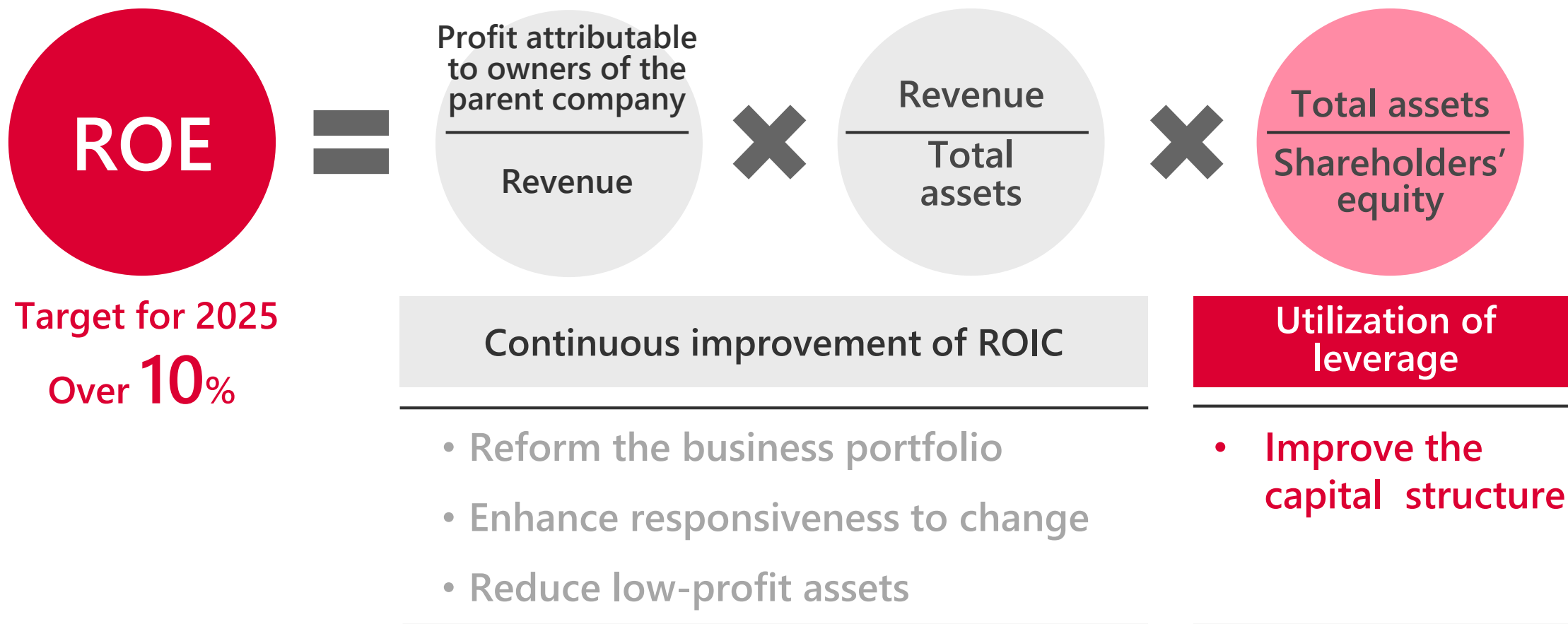
Secure strategic inventories as necessary to hedge against natural disaster risks and against tight supply-demand balance for electronic components and other items

Standard inventories

Retain standard inventories as necessary for stable supply



(2) Financial strategy to improve ROE



Improve ROIC and use leverage to create corporate value

Improvement of capital structure (utilization of financial leverage)

Basic policy

- Improve the capital structure to maintain a balance between efficiency and safety based on a target for shareholders' equity ratio of 50% or more (FY2021: 57.8%)
- Maximize ROE by improving profits while curtailing capital increases

Approaches

Utilization of borrowings

- Invest for growth, such as M&A, by harnessing the additional financing capacity over 1 trillion yen
- Continuously issue foreign currency-denominated corporate bonds to diversify/strengthen the funding platform

Shareholder returns

- Dividend level
Make stable and long-term improvements from DOE 3.0%
- Strengthen flexible acquisition of treasury stock based on the targeted capital structure and theoretical stock price

Progress of efforts

- September 2022 balance of bonds and loans: Over 1 trillion yen
(FY2020: 850 billion yen)
- FY2021: Issuance of DENSO's first U.S. dollar-denominated bonds
- FY2021: DOE 3.1% (165 yen/share)
(FY2020: DOE 3.0%, 140 yen/share)
- Acquisition of treasury stock: over 100 billion yen for two consecutive years
(FY2017/2018: over 30 billion yen, FY2019/2020: no acquisition)

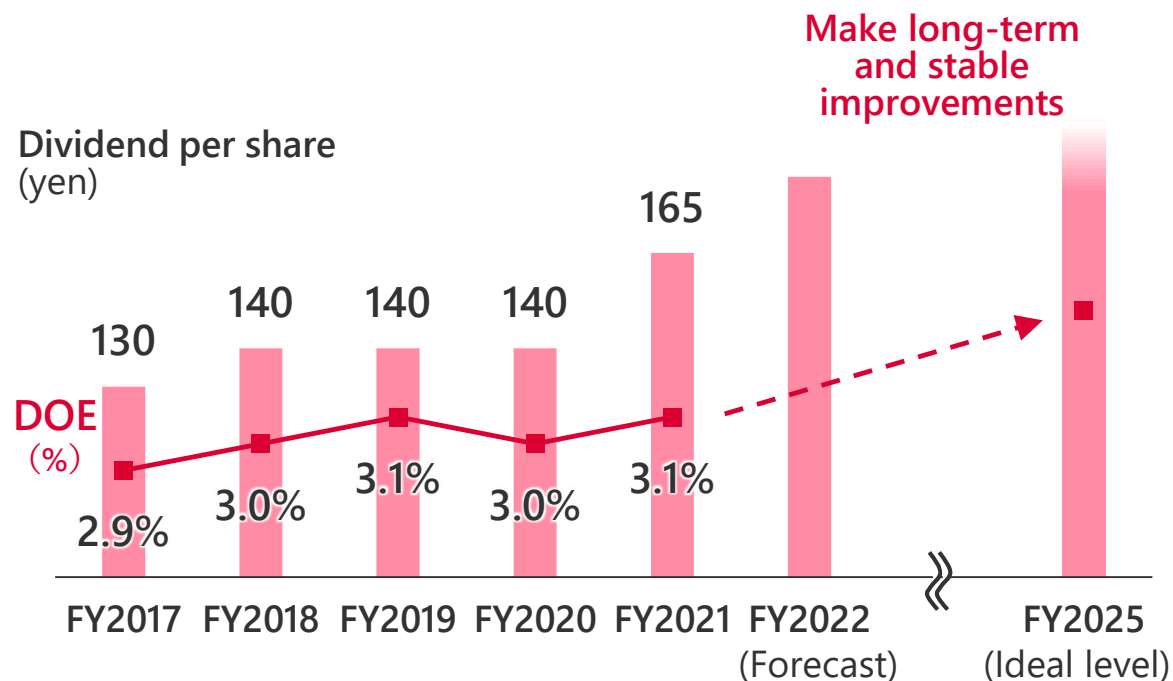
*DOE: Dividend on Equity

Shareholder return policies

Dividends

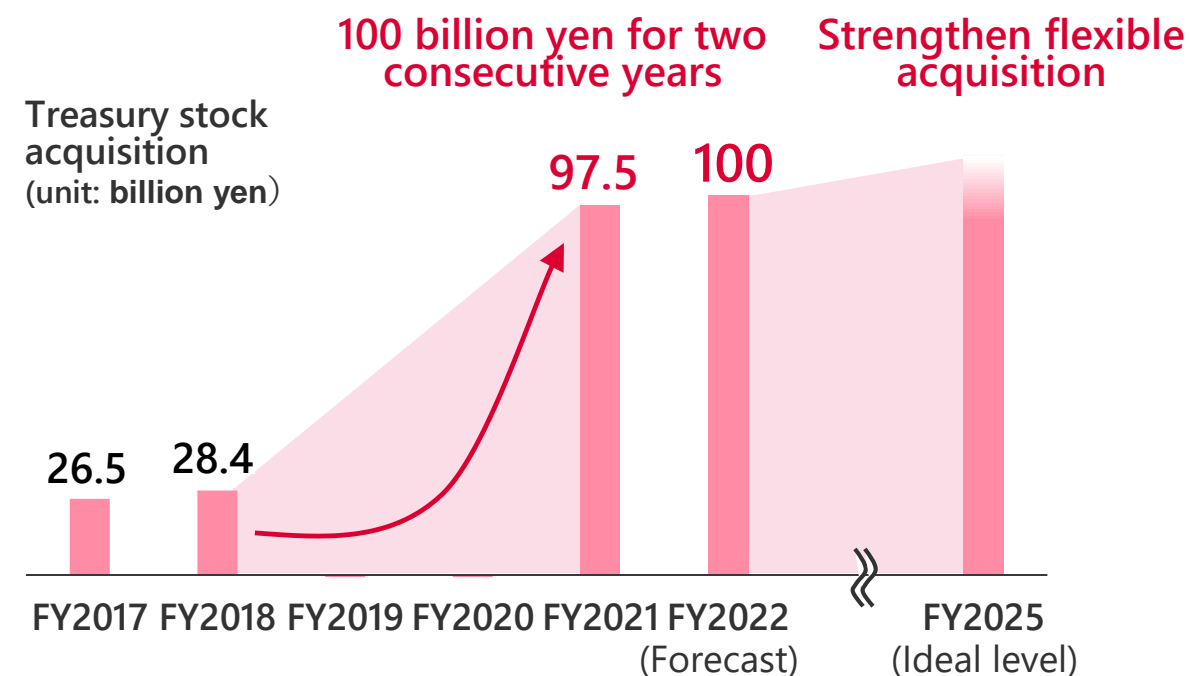
Make stable and long-term improvements

in the dividend level from DOE 3.0%



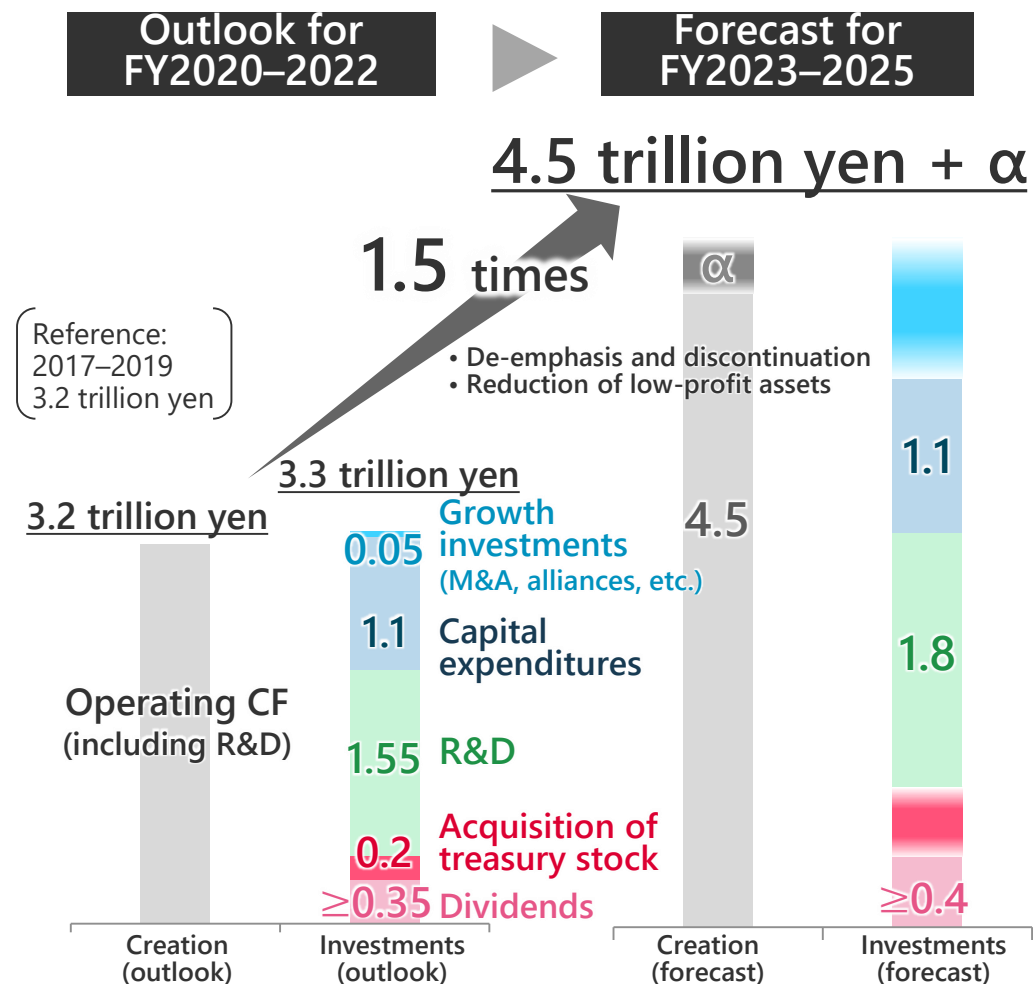
Acquisition of treasury stock

Strengthen flexible acquisition based on the targeted capital structure and theoretical stock price



**Increase shareholder returns, considering
"Shareholder returns + Increased share prices > Cost of shareholders' equity"**

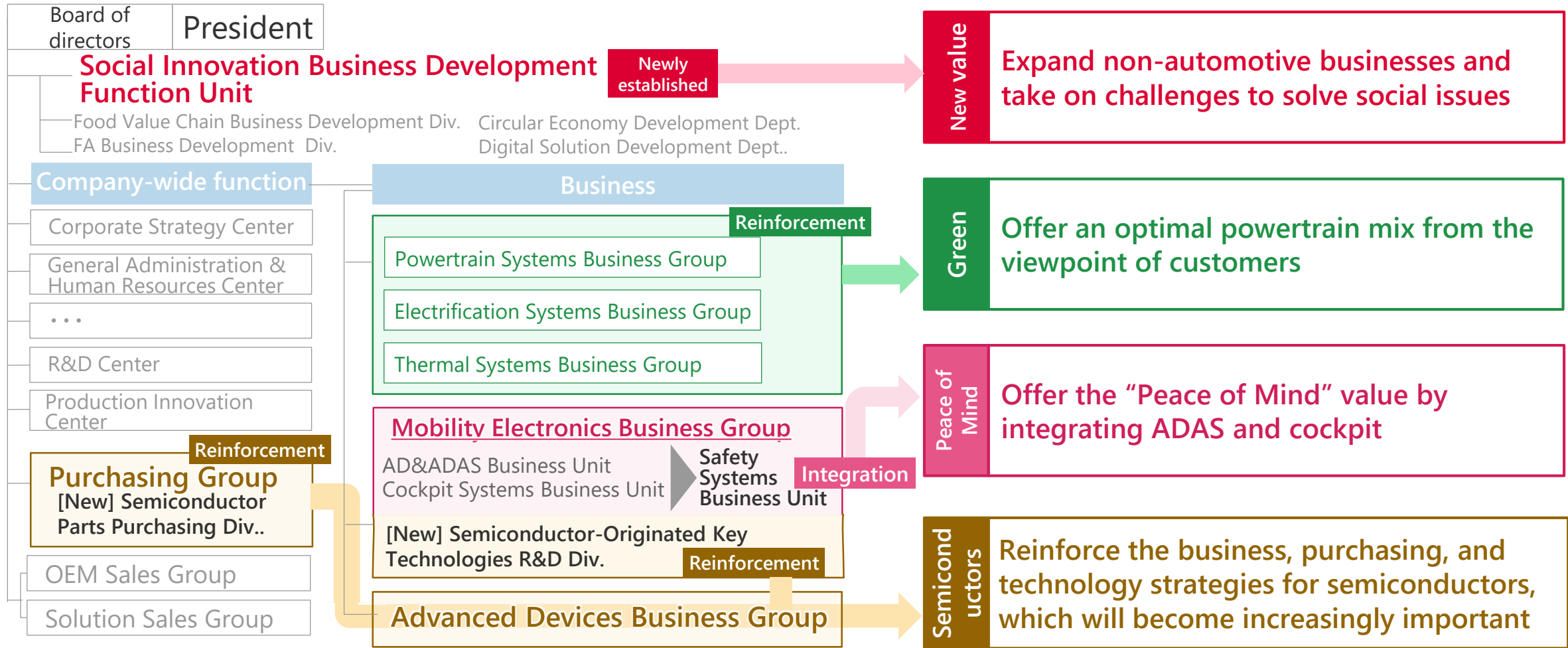
Cash allocation



	Outlook for FY2020–2022	Forecast for FY2023–2025	Target for FY2025
Creation	Build the corporate structure during the Covid-19 pandemic Operating CF 3.2 trillion yen	Reinforce the earnings structure by reforming the business platform	Operating margin 10%
Growth investments	Continue to study strategic large-scale investments	M&A/alliances by utilizing loans	Make investments flexibly
Capital expenditures	Freeze ICEs and boldly shift to CASE Investments based on financial discipline at a level equivalent to depreciation		6% or less compared to revenue
R&D	Strengthen software development and increase the efficiency Continue to make investments to keep on strengthening competitiveness		9% or less compared to revenue
Shareholder returns	Reform the return policy with capital costs in mind	Strengthen shareholder returns over the long term and in a stable manner	DOE 3.0% or more

Maximize ROE by continuously improving ROIC and utilizing leverage

Organizational structure to implement the strategy (January 2023)



Reform the organizational structure to realize the strategy based on management philosophy

*We contribute to solving
social issues through our
business growth*

DENSO

Crafting the Core