

Main Q&As of Presentation on the Results for 2Q of the Fiscal Year Ending March 2018

[2Q Results and Outlook for FY2018 Financial Forecast]

Q: What are the specific factors that contributed to the increase and decrease of the operating profit in the first half?

A: Main factors are external influences, such as product volume increase and exchange gains. In addition, +12.4 billion yen for "Others" has contributed to the increase. Of +12.4 billion yen for "Others," +10 billion yen is attributed a temporary factor, a recent reduction of the past reserve for quality activities, as the possibility that we bear the cost has disappeared. Except for the temporary impact of the reduction, the overall figure shows DENSO's real business performance. We have steadily built the foundation to achieve an operating profit ratio of 10%.

The amount of "Others" remained negative for past years due to (1) losses incurred in launching new products and (2) low profitability. In this quarter, it turned positive thanks to our efforts to address actual and potential risks despite the temporary factor mentioned earlier. We think our endeavors have slowly contributed to the strengthening of manufactory and been reflected to the financial result. Compared with the estimate released with 1Q results, operating profit has improved +43 billion yen. In addition to the (1) +10 billion yen: temporary factor of reduction of the past reserve for quality activities, (2) +13 billion yen: product volume increase and exchange gains, (3) +7 billion yen: advanced cost recovery in the first half, (that will be offset in the second half), the cost reduction has started to show the effects.

One of the temporary impacts, except reduction of the past reserve for quality activities, +12 billion yen caused by profit accrued from stock valuation of TD mobile Corporation that has become Denso's subsidiary on July 1, 2017 is included in 2Q result.

Q: Is the full-year forecast too conservative compared to the significant profit increase in the first half?

A: Our foreign exchange rate forecast for the second half is somewhat conservative: 110 yen/dollar and 125 yen/Euro. If the foreign exchange rate remains equivalent to that in the first half, the forecast for the second half will be comparable to that of the first half.

[The Effect by the new subsidiary, DENSO TEN Limited (FUJITSU TEN Limited)]

Q: What are the revenues and profit of DENSO TEN (FUJITSU TEN)?

A: Its revenue is expected to be 180 billion yen and profit to be 2 billion yen in the five months since the company becomes a consolidated group company in Nov. 1, 2017. 450 billion yen of estimated R&D expenditure also includes 15 billion yen of DENSO TEN. Each of estimated CAPEX and depreciation cost also includes 5 billion yen as an influence of DENSO TEN.

[DENSO Group Long Term Policy 2030 & DENSO Group Long Term Plan 2025]

Q: Annual growth of 5% is required to attain revenues of seven trillion yen by FY2026. What are the preconditions for the growth of new vehicles' production?

A: Vehicle production is expected to grow by about 2–3% per annum by 2025. Vehicles will become more value-added, and we will supply products that meet this trend to achieve faster growth than the auto market. We also take into account the growth of the non-automotive business.

Q: How does DENSO realize an operating profit ratio of 10% by FY2026 in accordance with the long-term plan? What will be the R&D and capital expenditure to achieve that goal?

A: We will develop and offer high-value-added products and systems in addition to components. There may be pros and cons about the target of 10%, but we will work hard to reach a profit ratio of 10% in the automotive industry. We will keep the equipment depreciation in revenues within 6% by capping the equipment investment. We will maintain the R&D investment at 400 billion yen even if the revenues and operating profits decrease.

Though we continue to invest in safeguarding the environment and ensuring the peace of mind in the same level as past, we will control the investment ratio. We think it's important to increase investment in safety areas and maintain the R&D amount.

Q: What will be the revenue by product, the ratio of customers and regions in FY2026?

A: We will achieve appropriate growth in electrification and other fields though the growth rate may vary. The ratio of customers will remain almost unchanged because we will increase revenues both for Toyota and non-Toyota customers. Regarding the ratio of regions, we do not have the regional breakdown yet. Actually we are concerned about the recent developments in North America, but we are making large-scale investments in the belief that the business will improve by 2025.

It has been difficult to make a return on overseas investments, but the improved cost structure has started to produce results. In North America, we will promote local production of safety and electrification products. To increase profitability, we will increase the local processing of components and promote local procurement.

[Initiatives in Focus Fields]

Q: DENSO's HV-related components are known for high performance but are perceived to be expensive. Isn't this a disadvantage in expanding sales?

A: The THS (an HV system) jointly developed with Toyota is an electrification system that features the most sophisticated technologies in the world to enable coordinated control of two motors and an internal combustion engine in addition to boosting voltage. This technology is applicable to single-motor vehicles and EVs. We already have a complete set of basic electrification technologies.

In terms of production equipment, we have either started or are preparing for production in Japan, North America, and China. Most of the existing production lines can be used for new products. This helps reduce the depreciation cost and achieve high levels of competitiveness in technology, cost, quality, and infrastructure. We have a competitive edge in sales expansion.

Q: DENSO has an edge in the conventional field of electrification, but in which layer (hardware/software) will DENSO demonstrate its strength as electrification progresses?

A: We have an edge in hardware to detect battery consumption and use the battery (a key technology for EVs). We can also offer products from the viewpoint of vehicles. For example, we have reduced the size of the MG and inverter to offer more choices of the combination or layout of each component and increase the cabin space. To increase the range, we can ensure overall energy management of a vehicle by applying technologies refined in the development of air conditioning products.

From the viewpoint of software, electrification and automated driving will increase the demand for both in-car and out-car connectivity. We will offer an easily expandable integrated platform to demonstrate our strength in software.

Q: Electrification will change the fields undertaken by OEMs. Will the relationship between automakers and OEMs change?

A: The answer is yes. The focus will shift from manufacturing key components to supporting the delivery of better cars. Automakers should be responsible for the overall vehicle control. DENSO has an edge in energy management. The cooperation will be enhanced.

Q: What is DENSO's strength in automated driving technologies?

A: Currently, the automated driving level of automakers is LV2. DENSO has strength in offering products and a system that can detect obstacles and judge the route in order to enhance safety in automated driving. Specifically, the system uses cameras, millimeter-wave radar sensors, and sonars to detect the situation around the vehicle and then makes decisions based on the data from these devices in order to provide drivers a safer route. We will offer these products to expand sales.

[Alliance, M&A]

Q: What is the vision and policy of alliance and M&A?

A: We promote M&A for three purposes: (1) investing in VCs, (2) securing resources, and (3) acquiring technologies in the medium to long term. In the past three years, we invested about 1 billion yen in VCs. This fiscal year, we have decided to invest about 6 billion yen in the first half, so we have increased the investment significantly. We have not invested in large-scale M&A, but we could invest up to about one trillion yen based on our financial strength, if necessary. We will review the possibility of large-scale M&A as one of priorities.

Q: Renesas Electronics has announced that it will collaborate with DENSO and Toyota in the semiconductor business for automated driving. How will the relationship change?

A: We will expand the scope of partnership from engine ECU microcomputers to judgment in automated driving.

[Returns to Stockholders]

Q: What is the policy for returns to stockholders?

A: Annual dividend payment will be 130 yen (an increase of 10 yen) based on our policy to continuously and stably pay dividends in the long term. We will continue to buy back stocks to return to stockholders properly.