

Main Q&As of Presentation on the Results for 3Q of the Fiscal Year Ending March 2018

[3Q Results and Outlook for FY2018 Financial Forecast]

Q: How do you evaluate the 3Q financial results?

A: The overall results were good, including the recent orders.

Q: The profit for the full-year financial forecasts looks conservative. What are the major assumptions?

A: Only the foreign exchange rate has been changed from the 2Q results. The increase in the production volume, which is thanks to the increase in the number of vehicles, has not been reflected and may cause the 4Q forecast to be revised upward. In addition, we may invest in R&D and F-IoT ahead of schedule. Thus, we revised the profit for the full-year financial forecasts upward by about five billion yen.

Q: What are the specific negative factors of other income and expenses?

A: We have increased the allowance for losses related to the Anti-Monopoly Act by reviewing past cases based on the current situation. We believe the amount has peaked.

Q: The general and administrative expenses for 3Q are high. Are there any special reasons?

A: Our spending on expenses for 3Q is on schedule; there are no any special reasons for the increase. In 4Q, we will increase R&D and accelerate the development in F-IoT, electrification, and automated driving. We are likely to make additional investments.

Q: Profitability in 3Q was high due partly to the improvement in "Others" in the Change in FY2018 3rd Quarter Operating Profit. Will profitability in 4Q be much higher if this trend continues?

A: Large negative numbers were posted for "Others," which turned positive this quarter. This is attributed to a significant reduction in loss when launching new products, which has helped improve the profitability of such new products. The positive number of "Others" indicates that our overall profitability has improved, and we'd like to keep this trend.

On the other hand, the balance for only three months of 3Q is negative. The negative number is mainly due to the process of accounting for allowances for paid absence by IFRS-based accounting process. When the percentage of employees who take paid leave increases, the Company has to increase the amount of allowances for the quarter, thus the cost increases. This applies to 3Q only.

Q: R&D expenditure seems lower than expected. What changes has DENSO made?

A: We have spent about 70 percent, so the spending is on schedule. We will complete the spending of 450 billion yen by the end of the fiscal year.

Q: What will be the M&A and R&D expenditures?

A: Our M&A investment has generally been small scale. We hope to increase M&A and investment in VCs in the future. We will focus on technologies such as semiconductors and consider acquisitions to secure resources in Central and Northern Europe. Regarding R&D, we will continue to invest at least 400 billion yen, which is among the highest level in the industry, while increasing efficiency.

Q: What are your forecasts for sales to the Toyota Group and non-Toyota customers?

A: For the next one to two years, sales expansion to non-Toyota customers will drive overall growth. We expect greater sales of electrification products in North America and China in particular.

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

Q: By how much will R&D investment increase due to DENSO TEN? What is the revenue ratio in and outside Japan?

A: DENSO TEN's R&D investment was six billion yen in 3Q and is projected at about 10 billion in 4Q. Regarding revenue, about half of the annual revenue comes from overseas operations. The share of sales to Toyota in its total sales is at approximately 70 percent. DENSO TEN has many group companies around the world; we will consider streamlining their operations including consolidation with our existing group companies around the world.

[Overseas market]

Q: What is the breakdown of sales in Asia by country?

A: The revenue and profit are almost equally split between China and the rest of Asia. The growth has been particularly strong in China, Thailand, the Philippines, and Indonesia. Revenue and profit in Malaysia were low but have been recovering, and have been strong in India.

[Initiatives in Focus Fields]

Q: What are the revenue and profit for ADAS-related products?

A: We have attained revenue which should reliably meet the projection for this fiscal year (120 or 130 billion yen), and are making progress as planned. In terms of revenue, we have almost reached break-even, and so will make a surplus in FY2019. According to our sales plan, revenue will exceed 200 billion yen by FY2021. ADAS-related products will become an important source of revenue and profit.

Q: Regarding electrification, will DENSO expand sales to non-Toyota customers?

A: We will make a large investment in Tennessee (North America) as we announced in a press release on Oct. 2017. We have also received a large order from a major automaker in North America. The demand for electrification has been growing in China as well, and we will increase our production capacity in China depending on the situation. In addition, we have established JV of engineering development for electrification with Toyota and Mazda last year. We expect that we would expand sales to other companies that agree our activities.

Q: Which item is expected to increase the profit in order to improve profitability?

A: ADAS-related products will soon generate a surplus and will have a positive impact. DANTOTSU factories and 1/n lines have been deployed in Japan, and will be fully deployed outside Japan. This project will gradually increase the profitability of all business units. We have also been reforming workstyles. Although the main objective is not to reduce overtime, business process innovations and IT tools have helped reduce overtime hours in the administrative and indirect divisions by about 10 to 20 percent.