

FY2019 2nd Quarter Financial Results

Summary of Q&A

[Financial results and forecast]

Q: How will the operating profit change during this fiscal year?

A: Despite the global production increase and sales expansion, there were negative factors such as increase in expense and depreciation cost from the investment for future growth as well as the impact of transient profit in the last fiscal year.

Q: What specific factors will contribute to the high operating profit in the second half?

A: The second half will see the effects of collecting application fees of the first half and productivity improvements due to the introduction of factory IoT. We will cope with increased material costs by using VA/VE and factory IoT to attain the target operating profit. We are capable of achieving revenues of 5 trillion yen and an operating profit of 400 billion yen at the current exchange rate.

[Initiatives in focus fields]

Q: What is the latest progress of the Automated Driving/Advanced Safety business?

A: We plan to achieve growth that will drive the company. By 2020, we will attain revenues of 200 billion yen. Our plan is on course.

Q: What are DENSO's advantages in sensing technology? How will DENSO beat competitors in software and AI?

A: Some competitors have sophisticated AI technologies and algorithms, but it is extremely difficult to apply them to vehicles to ensure functional safety. We conduct driving tests using actual vehicles even in situations where automated driving is difficult due to the road environment such as snowy roads. We have been developing technologies based on our mission to protect people's lives. We are the only company that can increase reliability while maintaining in-vehicle quality because we have many years of experience in the automotive industry.

Q: What is DENSO's aim to open a new facility on a site adjacent to Haneda Airport?

A: It is to strengthen automated driving R&D in Tokyo area. The new facility will feature a development building for prototype production and vehicle maintenance as well as a proving ground for demonstrations. Automated driving technologies that are planned, researched, and developed by Global R&D Tokyo will undergo prototype development and demonstration in Haneda so that the entire process can be completed in the Tokyo area.

[Collaboration with the Toyota Group]

Q: How will DENSO contribute to the concept of Toyota group collaboration and Home & Away?

A: As a result of the paradigm shift that is occurring in the automotive industry, the value that vehicles need to provide is changing significantly, and value offered through the soft domain is becoming increasingly more important. In this context, we can significantly contribute to them in the soft domain. Furthermore as mobility service develops, we wish to serve as a Tier 1 company in both components and services by offering information derived from raw data.

Q: DENSO will establish a joint venture with Aisin Seiki to develop electrification drive modules. What

is DENSO's market strategy in China? What are DENSO's advantages compared to competitors?

A: In the Chinese market, the sales of EVs, HVs, and FCVs are expected to increase. We can demonstrate our strength in ensuring compatibility with customers' HV systems in particular. Aisin Seiki's gear trains and our technologies to reduce the size of inverters have a competitive edge. We will expand our product lineup for EVs to meet different outputs.

[Policy for returns to shareholders]

Q: What are the target levels of the dividend payout ratio and total return ratio?

A: The target dividend payout ratio is 30 to 40%. We will continue to pay dividends sustainably. We consider that a total return ratio of 40 to 50% is appropriate.