

Financial Results for Fiscal Year ended March 2019 (FY2019) Summary of Q&A

[Financial results and forecast]

Q: What are the details of the provision for quality measures, which is a large amount, in the results for FY2019?

A: We cannot provide details of quality problems. As vehicles become more advanced with the use of electronic components, the number of defects in electronic devices and software has been increasing. Although each device defect is very small it affects many products, and so it is difficult to ensure traceability. If a problem arises, we have to estimate conservatively. We will utilize F-IoT to increase the accuracy of traceability so that we can narrow down the scope of investigation to identify a problem. We will also work with semiconductor suppliers both in production and design to ensure in-vehicle quality. We must enhance process control as we are likely to work with suppliers who are not accustomed to manufacturing in-vehicle equipment. Regarding quality, problems have arisen in products that we designed and released several years ago. We will conduct a review to eliminate the problems and restore trust in our quality. The top priority is to avoid further problems.

Q: Does the revenue plan for FY2020 include the effect of consolidating the Hirose Plant of Toyota Motor Corporation (TMC)?

A: The overall growth in terms of production volume, except for the influence of the foreign exchange rate etc., will be about 3% from the previous year. Accordingly, we will appropriate 50 billion yen for increasing the production volume. The effect of consolidating the Hirose Plant will be reflected from April 2020; it is not included in the plan for FY2020.

Q: Regarding the operating profit forecast for FY2020, the 50 billion yen reduction in variable cost is high compared to past levels. What lies behind the increase?

A: As revenues have been growing, we are ready to increase the reduction in variable cost. The results of our long-term efforts to improve productivity are also included in the reduction. The number of electronic components to be used in vehicles will increase significantly. We will reduce the processing cost and materials cost by taking full advantage of economies of scale.

Q: What about DENSO's business in Asia in FY2020?

A: Revenues in China in FY2020 will slightly decrease from FY2019, but will increase steadily in other regions. The profit margin remained high, so it is essential to secure profit and recover the business in South Korea which suffered an impairment. The latest impairment there will lead to decreased depreciation in FY2020 and beyond. In addition, three companies were consolidated into one company. Thus, we will aim to produce a surplus in FY2020.

[Initiatives in focus fields]

Q: DENSO announced an investment worth 180 billion yen in electrification. When will DENSO make that investment? When will DENSO recoup it? Does the investment plan reflect the impact of TMC's decision to make the HEV system patents royalty-free?

A: We invested 70 billion yen in FY2019, and will invest another 70 billion yen in FY2020 and then 40 billion yen in FY2021. The investments in and outside Japan account for 70% and 30%, respectively. The timing of recouping those investments varies depending on the year. We expect to fully recover capital expenditures in up to four years, and in two or three years at the shortest, because profitability in the electrification business has been increasing. The investment plan does not reflect the impact of TMC's decision to make the HEV system patents royalty-free. We will increase the investments if additional orders are received due to the release of the patents.

Q: When will BluE Nexus and J-QuAD DYNAMICS start business, and what are the details of their business?

A: BluE Nexus will develop products that integrate a transaxle, inverter, and MG.

The company has received inquiries from several companies. It will start business in the early 2020s.

J-QuAD DYNAMICS, which is a joint venture of four companies, will develop advanced software for automated driving. It will also start business in the early 2020s. We expect these companies to be sufficiently competitive though it is difficult to forecast the scale of business.

[R&D and M&A investments]

Q: What is DENSO's R&D policy? Will DENSO increase R&D expenditure, which was as high as 9.5% of revenues in FY2020?

A: It is important to have controls. We will keep R&D expenditure at around 9% of revenues, but we must increase efficiency to increase output. We will eliminate reworking, enhance digitalization, promote R&D outside Japan, and increase the efficiency of software development. To this end, we will share our order placement policy with partner companies, place orders with carefully selected contractors on an ongoing basis, and ask the contractors to assign high-quality personnel.

We will keep R&D expenditure at 9 to 9.5% of revenues, and so it will increase if revenues increase. We will maintain controls to keep the balance between R&D expenditure and revenues.

Q: DENSO has invested in Uber, as announced the other day, and other venture companies to develop new technologies. Unsuccessful investments are likely to increase. What is the criterion and policy for DENSO's investments?

A: We have a criterion for the total amount when making investments. Specifically, we have an annual cap of about five to six billion yen. The investment amount has increased from about one billion yen to five to six billion yen. After making investments, we follow up the progress at special meetings. We check the technologies, financial position, and timing of increasing investments on a quarterly basis. Problems are likely to occur when collaboration is terminated. It is difficult to withdraw after investing in an unlisted company, so we must study solutions. We will consider the possibility of assisting companies in which we have taken a stake so that they can become public companies through an IPO. The annual cap applies to the early stage of investment. The cap of six billion yen does not apply to investments that involve highly advanced technologies such as our investment in Uber that we announced in April. We will actively invest in companies that are close to the core of our business and that are likely to be advantageous to our business, regardless of the cap. Proprietary technology development no longer works.