FY2020 1st Quarter Financial Results
Summary of Q&A

[Financial results and forecast]
Q: What caused the decrease in operating profit in 1Q?
A: Regarding the results in 1Q, operating profit decreased from the previous year, but we are on course based on the plan. The expense was included in the plan. The 1Q results include a temporary expense for IT investment to improve productivity and promote workstyle reforms. Increased motivation of employees and improved productivity will contribute to profit in the future.

Q: Based on the results, what is the state of progress toward the forecasted full-year operating profit? What is the likelihood of achieving the goal?
A: In the 1Q results, the operating profit was 10 billion yen more than planned. Given that operating profit is forecast at 380 billion yen for the year, it is expected to increase significantly in the second half of the year compared to last year. We will achieve the goal by improving productivity of indirect sections by investing in IT, introducing F-IoT (Factory IoT) and promoting VA and VE in close cooperation with suppliers. We will take action properly to compensate for the worsening business environment.

Q: What factors contributed to the operating profit of 10 billion yen more than the plan in the 1Q results?
A: The price hike of electronic components due to the tight supply and demand started to depress operating profit last year. However, we have successfully controlled the price hike and increased the unit price of our products sold to customers in response to the price hike. The expense was significantly higher than last year but less than planned. Other factors included improved productivity at production sites.

Q: Global vehicle production has been decreasing in the short term. What is DENSO’s outlook for car production of the year?
A: We have not revised our original forecast but we expect vehicle production to decrease by 3%, mainly due to the slowdown of the Chinese market. Taking into account our revenue by customer and release of new products, we forecast 2% sales growth of the year.

[Initiatives in focus fields]
Q: How will DENSO be affected by Toyota Motor Corporation’s policy to bring the electrification plan forward?
A: We announced that we will make an electrification-related investment worth 180 billion yen over the three years. This includes Toyota’s plan that has been implemented ahead of schedule. The number will remain unchanged for the time being. At present, we manufacture electrification products in Japan, US and China. We will expand our production capability in Tennessee as well as China and Electrification Innovation Center in Japan. Regarding the return, the Electrification Components Business Unit, which is in charge of electrification-related products, has attained an operating profit margin beyond the average of the entire company. While competitors are currently making large investments, we are already in the phase of making profit.

Q: DENSO will establish a new company with Toyota Motor Corporation to develop semiconductors. What role will DENSO play? What unique roles will the new company play compared to Renesas?
A: Previously, DENSO and Toyota performed similar business operations independently. The new semiconductor company will eliminate this practice, increase the efficiency of development expenditure, standardize the interface, develop SiC and GaN, and improve the performance of microcomputers. The developed products will be sold not only to Toyota but also to other OEMs and Tier 1 suppliers. Renesas is in charge of operations close to implementation. We expect Renesas to develop SoCs for automated driving.