

FY2020 3rd Quarter Financial Results Summary of Q&A

[Financial results and forecast]

Q: Regarding the quality costs, why were such costs incurred?

A: Recent products are far more sophisticated and software-rich than before, and our production environment uses an increasing number of electronic parts. Not only by Toyota but also other OEMs are increasing the use of common parts and components. We need engineering capabilities to build quality into products and the financial strength to pay for defects. Regarding software and electronic parts, it is important to conduct an initial product inspection properly and then copy the inspected products. It is also important to reduce processes that are dependent on workers, promote automation, and standardize the work so that it can be performed by anyone without rework. Regarding software, we will introduce a system for rewriting software after shipment using OTA technology so that quality costs can be reduced.

And it is important to enhance repairability by enabling circuit boards to be replaced instead of the whole assembly. Given the increasing use of common parts and components, we will utilize F-IoT and other solutions to increase traceability and identify current production parts and components to prevent the spread of defects.

Q: Please explain why the revenue excluding foreign exchange rate fluctuations have decreased compared to the plan.

A: By region, there has been a significant decrease in China, India, and Thailand. In India, the revenue fell 20% to 30% temporarily due to decreased nonbank loans. In Thailand, the revenue fell by about 10% due to loan limits and appreciation of the baht.

Q: What impact is the new strain of coronavirus in China having? Is it factored into the outlook for the annual business performance? Is the impact likely to change the business strategy in China?

A: We have not reflected the impact of the coronavirus in the plan. We will also control the attendance of employees depending on the developments at OEMs. Some products are exported from China, but we are confident that the inventory will be sufficient unless the impact is significantly prolonged because we manage inventory risk. Regarding capital expenditure, the policy of increasing expenditure will remain unchanged, in china. But In view of the recent market slowdown, we will remain disciplined depending on the environment.

Q: What is DENSO's view the next fiscal year?

A: We will be able to maintain revenue growth in the future, because of increased installation of safety products and our advantages in electrification- and cockpit-related products.

The decrease in revenue is mainly due to Asia. In China and India, the number of cars produced is expected to bottom out this fiscal year and recover next year and beyond. While maintaining profitability in Asia, we will improve the sales composition in other regions such as North America and Europe.

Q: How will DENSO intend to improve profit margins in the market slowdown?

A: The surge in software R&D expenditure has reduced profitability. We will reduce R&D expenditure by automating inspections and using AI in debugging. We will also reduce the number of software suppliers and stabilize and equalize their workload. Meanwhile, we have introduced IT tools to improve the productivity of administrative and indirect sections, and this has started to produce results. In addition to these activities we have started to sell cross-holdings to improve B/S efficiency and diverting it to more asset-efficient investments. We will continue to invest in profitable areas and improve our business structure.