

Financial results and forecast

Q: What are the results and forecast of the effect of streamlining the operations? What is the outlook for the special external factors next fiscal year, such as a decrease in production due to the semiconductor shortage and higher logistics costs?

A: Main factors that contributed to the improvement of 100 billion yen this fiscal year were more efficient software development and fewer business trips. We may not be able to secure the same amount year-on-year each year, but the effect is expected to spread. The amount is expected to increase due to higher production volumes.

Next fiscal year, we expect revenues to decrease by 190 billion yen due partly to the slump in vehicle production. Meanwhile, we expect operating profit to decrease by 90 billion yen due to a fall in production volume, hike in semiconductor prices, and increase in logistics costs. The outlook for the tight supply and demand balance of semiconductors is not clear, but the balance is expected to ease in the July-September quarter due to the increase in production capacity at foundries. We are working to ensure stable operation until then.

Q: Is it correct to understand that DENSO has improved its operations such that an operating profit ratio of 9% can be secured? What other factors will further increase this ratio?

A: We attained an operating profit ratio of about 9%, except for a 190 billion yen decrease in revenue due to external factors and a 90 billion yen decrease in operating profit. We have been working to increase the revenue from ADAS, convert air conditioners into heat pump systems, and develop new thermal management products. An increase in added value will increase the operating profit ratio.

R&D and capital expenditures

Q: What is DENSO's policy for capital expenditures? What is the cost of replacing the plant equipment to achieve CO₂ neutrality?

A: We set capital expenditure to about 6% in terms of the ratio of depreciation to revenue. We will reduce and then maintain capital expenditure at 350 billion yen. Regarding CO₂ neutrality, we are discussing what actions to take. We are considering investing about 10 billion yen annually in photovoltaic panels and cogeneration systems to minimize CO₂ emissions from plants. We will commercialize a mechanism to adsorb and fix CO₂ emissions from plants and contribute to CO₂ neutrality through electrification and safety products.

Q: What is DENSO doing to increase the efficiency of R&D expenditure and software? How effective are these efforts?

A: We will keep the total R&D expenditure within 500 billion yen. Several years ago, software was growing rapidly and we had to develop software somehow. Our investment in software development about two years ago has produced results. We have been working to automate the development process to reduce man hours, eliminate rework, and stabilize quality. In terms of outsourcing, we have taken stakes in companies which have excellent engineering capabilities and dispatched personnel to these companies. We have reduced the number of partner suppliers to about half or one third; this has stably increased the work undertaken by these suppliers, enhanced productivity, and reduced rework.

We have deployed these activities both in and outside Japan and succeeded in cutting overall costs by

24-hour operation and lower labor costs.

Current status and outlook by region

Q: What is the current status by region?

A: The profit ratio is low in Europe. It is difficult to take action due partly to the lockdown amid the Covid-19 pandemic, but we have started to consider consolidating the group companies. Meanwhile, profitability is low in North America. DMTN will invest in growth fields, namely, electrification and automated driving. We have established a specific plan to close and consolidate some group companies and convert air conditioners into heat pumps. We will both increase profitability and improve operations.

In Asia, business is brisk in China, while revenues in other countries have fallen by 10%. Business in the Philippines and Indonesia has been sluggish and slow to recover. In Vietnam, profitability is high and the Covid-19 pandemic has not had a significant impact. We are considering increasing the revenue by exporting products from Vietnam. ASEAN is a high-revenue region, and the situation depends on the pandemic. Recovery in Indonesia and the Philippines is likely to boost revenue.