

# FY2023 1<sup>st</sup> Quarter (2022/4–2022/6) Financial Results Summary of Q&A

## Financial results and forecast

Q: What factors contributed to the decline in the 1Q results? How are the surging costs of raw materials passed on to customers?

A: The 1Q results deteriorated due mainly to the 22% decrease in production compared to the plan. The fall in vehicle production caused by lockdowns in China impacted Japan and North America. However, the production volume decreased only by 3.4% from the previous year because the optimistic plan reflected the recovery from the previous year and also thanks to efforts by OEMs. There are reports that the inventory of new cars has been decreasing mainly in Japan and North America. The production volume is likely to rise again when the shortage of materials is resolved. We have been steadily proceeding with negotiations as planned about passing on the surging materials costs to customers.

Q: What is DENSO's outlook for FY2023?

A: Our outlook reflects the results of 1Q and the risks of decreased production, foreign exchange gains, and environmental deterioration in 2Q and beyond. We announced at the beginning of the fiscal year that vehicle production would drop by 5%. Based on our latest outlook, we expect production to fall by 12% on average for FY2023 (results in 1Q: down 22%, 2Q and beyond: down 10%). Given the current situation, the foreign exchange rate is expected to be 130 yen/dollar. This will result in a slight increase in materials and energy costs, so we expect losses totaling billions of yen.

## Semiconductor shortage

Q: How does DENSO see the supply-demand balance of semiconductors in the auto industry?

A: Unfortunately, the shortage is not easing yet. Regarding industrial equipment and household appliances, there are reports that the shortage is slightly easing due to the weakening "stay-at-home" demand. The auto industry needs to become more reliable for semiconductor suppliers by placing long-term orders and passing on costs to customers. We have been working with semiconductor suppliers to place long-term orders and develop next-generation semiconductors together. We have also been working to improve the supply-demand balance by taking a stake in JASM and increasing the production capacity in Mie Prefecture.

## Response to decreased production

Q: How will DENSO cope with risks, including the decrease in production and parts shortage?

A: Regarding the rising costs of materials, customers are gradually accepting that higher costs will be passed on to them. Regarding the decrease in production, we will work more closely with customers. Specifically, we are setting a preparation period where possible and curbing the losses caused by the surplus human resources and higher inventory management costs. We are also changing the structure of production lines to be more flexible and receive help from semi-indirect sections in the event of a production increase. Meanwhile, we are improving logistics by procurement of parts from multiple suppliers, approval of alternative parts, and distributed inventory.

## Returns to shareholders

Q: Regarding the latest repurchase of treasury stock, what is different from past operations?

A: We introduced the dividend on equity ratio (DOE) to reduce capital costs and enhance corporate value by achieving an optimal capital structure. Last year, we repurchased treasury stock worth 100 billion yen. This year, we will have repurchased the same amount of treasury stock to show that we maintain the same policy. Note that we have repurchased treasury stock from Toyota and other companies, keeping Toyota's shareholding ratio below 25%. Thus, DENSO remains entitled to vote. We will continue to study the possibility of flexibly repurchasing treasury stock.