

FY2021 2nd Quarter Financial Results
Summary of Q&A

Financial results and forecast

Q: What are the details of the additional 46 billion yen for emergency measures and corporate reform?

A: For example, we have increased the efficiency of software development by introducing automation tools. In terms of hardware, we have reduced the number of prototypes by conducting simulations and eliminated rework through automation. Notably, corporate reform and digitalization in the development field have produced substantial results. We reduced R&D expenditure for FY2021 by 10 billion yen from the previous year, but without cutting the number of projects. We have also reduced business trips and cancelled participation in exhibitions. In 2Q, we received government subsidies (mainly in North America) worth about seven billion yen.

Q: What is the full-year forecast for FY2021? What is the outlook for FY2022?

A: Despite the possible increase in car sales, the expected revenue for the second half of FY2021 remains unchanged due to the uncertainty of the global Covid-19 pandemic. Regarding profit, substantial results have been made through corporate reform. We will be able to post a profit of 100 billion yen even taking into account the quality cost provision for 2Q. The outlook for FY2022 will depend on the market trend, including the impact of Covid-19. The revenue is likely to recover to about five trillion yen. Because we cannot expect steady growth in revenue, we will ensure high-quality management to improve the rate of return and ROIC while increasing the efficiency of development and business operations through digitalization and winning orders that increase profitability.

Q: What is DENSO's policy for R&D expenditure and capital expenditure?

A: We have increased efficiency by introducing digital tools. This has reduced R&D expenditure. It is important to constantly and efficiently produce output without reducing the necessary projects. In terms of capital expenditure, we will scrutinize and implement projects while increasing the equipment efficiency and capacity using F-IoT.

Initiatives in focus fields

Q: What is DENSO's strategy for expanding sales of products for hybrid vehicle?

A: It is difficult to adapt to the engines of various customers, but we will adapt to respective systems through BluE Nexus, which was established by DENSO and Aisin and in which Toyota has taken a stake recently. As a total system developer, we have strength in offering sub-electrification systems that can handle any engines or battery cells. Based on our long track record in adapting to the 2 motor THS, which is the most difficult in the world, we will beat competitors by ensuring control and adaptation while avoiding a significant cost increase.

Q: What is the latest situation by product segment?

A: It is necessary to electrify air conditioners in line with the electrification of vehicles. In thermal products, new technologies and higher-value-added products will be increasingly introduced, such as the electrification of compressors and introduction of the heat pump cycle, which is a new cycle that works without the heat source from the engine. We expect growth in new fields, such as thermal energy

management products.

The electrification systems business has been growing steadily. We will be able to increase the production volume. We received big orders this year, and have started production in Tennessee and Tianjin. We will launch operations in southern China to advance electrification.

In ADAS, we planned to turn a profit in FY2021 and then increase the profit margin to the in-house average. We became profitable in the second half of last year, six months ahead of schedule. The future will be as expected, such as increasing the installation rate and winning new customers.