

Consolidated Financial Results of 2nd Quarter for the Year Ending March 31, 2020

November 7, 2019

Katsuya Nishi

Representative Director & President
Sanden Holdings Corporation

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- 1. Mid-term Management Plan (SCOPE2023)**
- 2. Results of 2nd Quarter**
- 3. Progress of the Mid-term Management Plan**
- 4. Changes in Business Environment**
- 5. Particular Management Topics**
- 6. Revision of Full-year Business Forecast**
- 7. Future Endeavors toward Growth**

Vision & Management Policy

Vision

In order to establish the affluent society based on the harmony of environment and comfort, Sanden should be the company that everyone trusts, by keeping up with the times.

New mid-term management plan

SCOPE 2023

Basic policy

In order to create New Sanden, we will “carry through the structural reforms” for reconstruction of the management foundation and promote “collaborative creation” for sustainable growth.

Implementation Period

5 years from April 1, 2019 to March 31, 2024

Consolidated management indicators

	FY2018	FY2023
Net sales (100 millions of yen)	2,739	3,200
Operating income to sales	0%	5%
Capital adequacy rate	8%	25%

5 Reform Plans

Priority Measures

1	Comprehensive reorganization of production system	<ul style="list-style-type: none">■ Reorganize the global bases and establish optimal personnel structure
2	Enhancement of basic earning power	<ul style="list-style-type: none">■ Enhance 'workplace capabilities' from the fusion through integration of craftsmanship and leading-edge technologies.■ Combine the intelligence to pursue 'cost creation capability'.
3	Growth by actively promoting 'collaborative creation'	<ul style="list-style-type: none">■ Concentrate operating resources to the environment-conscious product area.■ Accelerate development in collaboration with other companies
4	Cash flow Creation through capital reinforcement and reform of assets structure	<ul style="list-style-type: none">■ Reinforce the capital.■ Streamline the working assets
5	System innovation for implementation	<ul style="list-style-type: none">■ Reform the corporate organization to enhance the corporate value.■ Reform the personnel system to sustain continual growth.■ Contribute to achievement of SDGs through our business activities.

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Summary of Consolidated Financial Results

[100 millions of Yen]

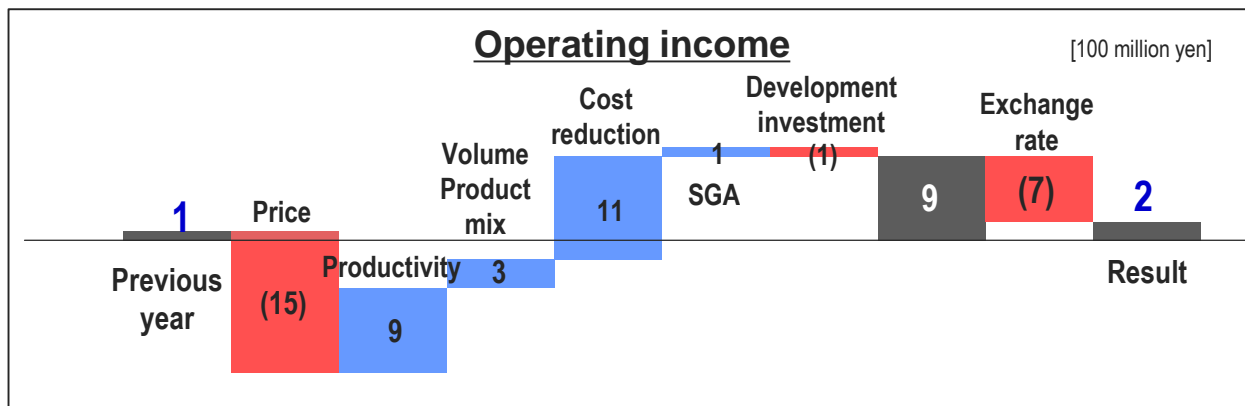
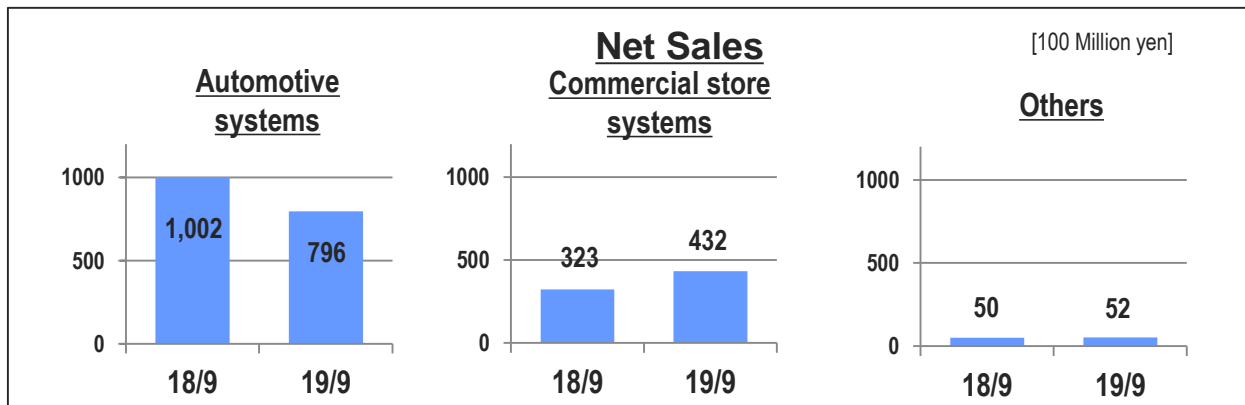
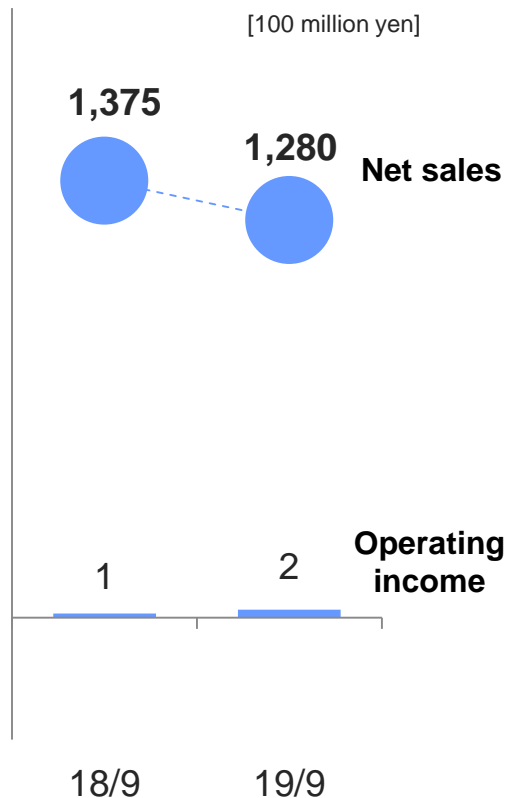
	2018/9 Result	2019/9 Result	Change from previous fiscal year (%)	
Sales	1,375	1,280	(95)	(6.9%)
Operating Income	1	2	+1	
Ordinary Income/Loss	(5)	(27)	(22)	
Net Income/Loss ^{*1}	(12)	18	+30	(-)

*1 Net income: Profit of current term attributable to owners of parent

Exchange Rate ^{*2}	USD	110 yen	109 yen	(1 yen)
	EUR	130 yen	122 yen	(8 yen)

*2 Exchange rate: Average market rate

Summary of Consolidated Financial Results



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Key Strategies (5 Reform Plans)

1

Comprehensive reorganization of production system

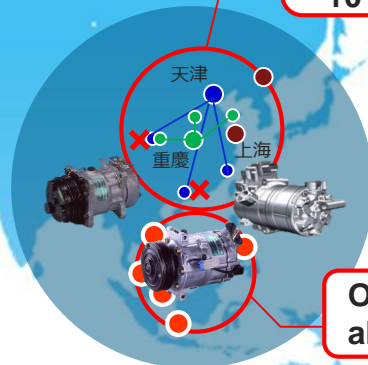
- Consolidate and transfer compressor production.
- Reorganize A/C production bases in China & Asia regions.
- Optimize personnel allocation around the world.

Reorganize production structure according to product life cycle

Total of 5 years



- Reorganize the production of the compressors for ICE.
- Review business portfolio.



Consolidation of bases in China
10 bases to 8

Optimum personnel allocation in Asia region

FY2019
750 people



FY2023
1,400 people

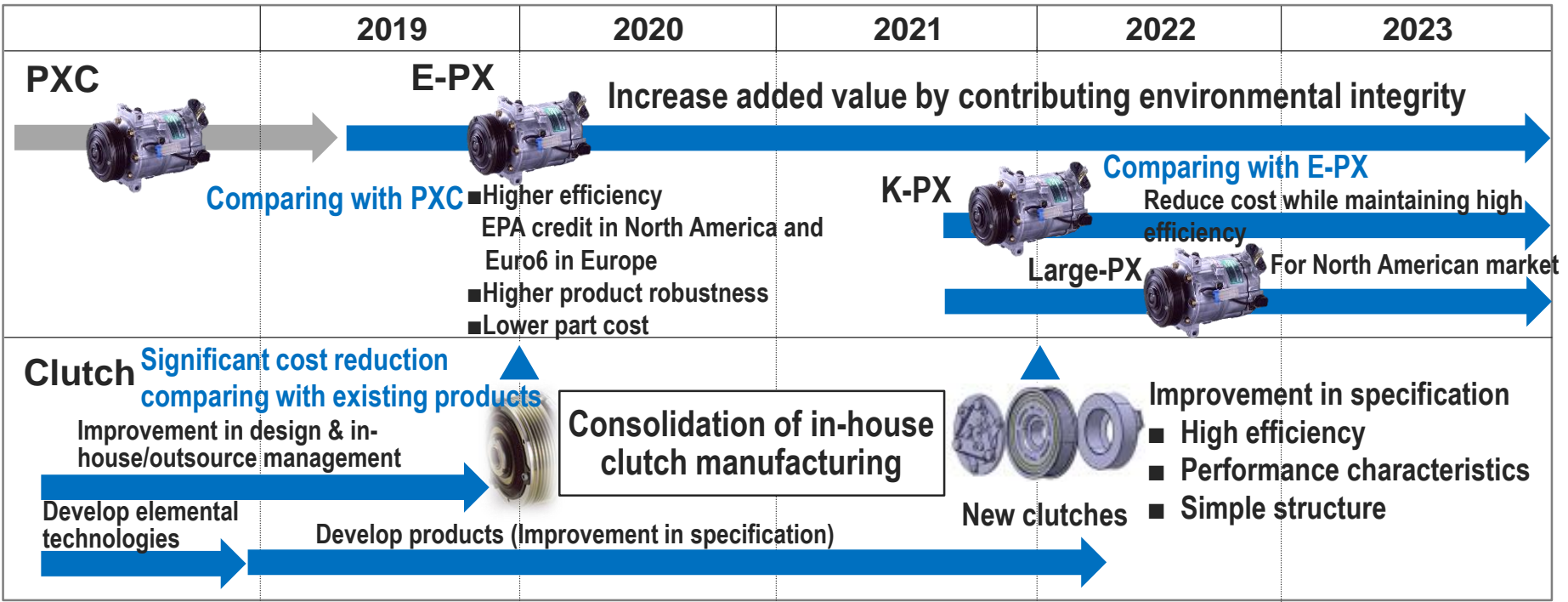


- Reorganize the production of the compressors for ICE.
- Reorganize the production structure for the mature products.

Key Strategies (5 Reform Plans)

2 Enhancement of basic earning power

- Optimize global procurement.
- Reduce the cost of PX compressors.
- Productivity innovation at the mother factory.



Key Strategies (5 Reform Plans)

2 Enhancement of basic earning power

- Optimize global procurement.
- Reduce the cost of PX compressors.
- **Productivity innovation at the mother factory.**

Compressor Mfg. Div. of YP

Automated production line for Electric-powered compressor (GEN4)



Automatic inspection with leading-edge sensing, image analysis and other technologies.

Automation through standardized design and use of robots.

To be introduced to Sanden Japan in 2020 → Global expansion

Number of operators will be reduced by 1/3 comparing with the conventional production line.

A/C (Heat Exchanger) Mfg. Div. of YP

Introduction of brazing furnace, new technologies, and IoT & AI management system

- World's first visualization sensing technology
- Independent product temperature control system
- Unmanned manufacturing process (Automatic transfer system)



Supporting industry business in 2019.

World's first technology development and global expansion.
Developed in Japan in 2022 → Expand to India and China
Increase productivity to 150%, reduce quality defects by 80%, and achieve unmanned operation.
Energy saving by 30% and reduction in consumption of auxiliary material

Key Strategies (5 Reform Plans)

3 Growth by actively promoting 'collaborative creation'

- Strengthen competitiveness of existing products.
- Collaborative creation in the field of next-generation devices and systems.
- Collaborative creation in the field of integrated Thermal management for EV

	Existing Products	New Products
Existing Market	<p>Improvement in competitiveness of existing products</p> <p>Development of low-cost PX</p> <p>Market Penetration</p> <p>Market Development</p>	<p>Air conditioning system for electric-powered vehicle</p> <p>Product Development</p>
New Market	<p>Air conditioning system market</p> <p>Thermal management market</p>	<p>Diversification</p> <p>Integrated heat management system</p>

Collaborative Creation in the Field of Development & Manufacturing

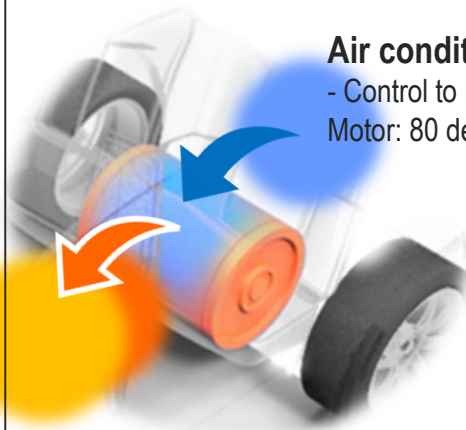
Sanden started joint development of heat management system for EV with Nidec to develop a heat management system for motor exhaust heat and air conditioning to increase cruising distance.

October 30, 2019

Sanden Holdings started its R&D activity in collaboration with Nidec Corporation.

With the transition from internal-combustion vehicle to electric-powered vehicle expected to continue, we are facing a difficult challenge to overcome; the short cruising distance of electric-powered vehicle. In addition, use of electric components, such as air conditioning system etc., gives significant impact to the cruising distance of electric-powered vehicles.

In order to solve this difficult challenge, we are going to combine Nidec's knowledge of traction motors and inverter with Sanden's heating and cool technologies. By doing so, we will be able to develop and commercialize the new heat management system that will be capable of performing heat management for both air conditioning and drivetrain systems in an integrated manner to expand the cruising distance.



Air conditioning & HP systems + Heat recovery
- Control to keep temperature within a proper range -
Motor: 80 degrees C, Inverter: 50 to 60 degrees C



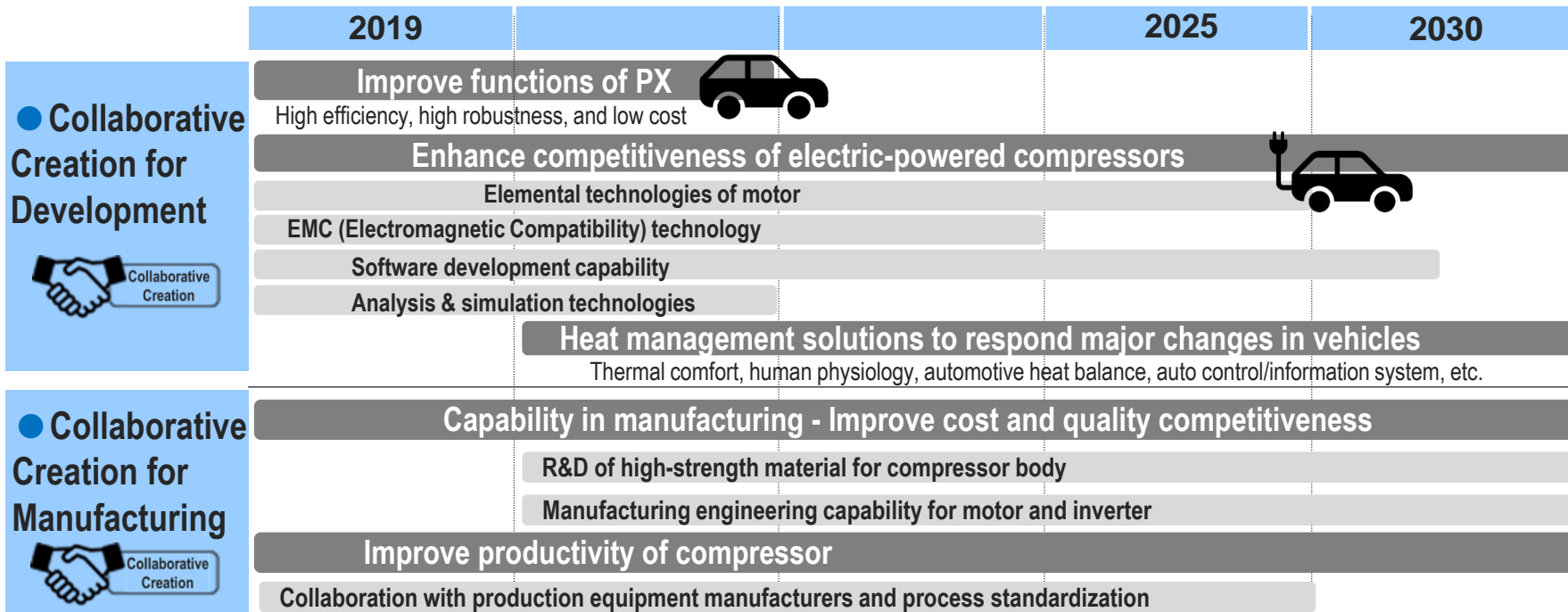
Nidec Corporation.
Traction motor & Inverter

Collaborative Creation in the Field of Development & Manufacturing

3

Growth by actively promoting 'collaborative creation'

- Strengthen competitiveness of existing products.
- Collaborative creation in the field of next-generation devices and systems.
- Collaborative creation in the field of integrated Thermal management for EV.



Key Strategies (5 Reform Plans)

4 Cash flow generation through reform in assets structure

- Liquidation of global assets.
- Efficient cash management

Shares
politically held
by Sanden



Since 2017

Gain on
sale

9.7 billion
(yen)



Domestic real estate assets



13 [properties]

Overseas real estate assets



3 [properties]

Since 2017

Gain on
sale

7.5 billion
(yen)



Implement CRE strategy additionally.

CRE: Corporate Real Estate

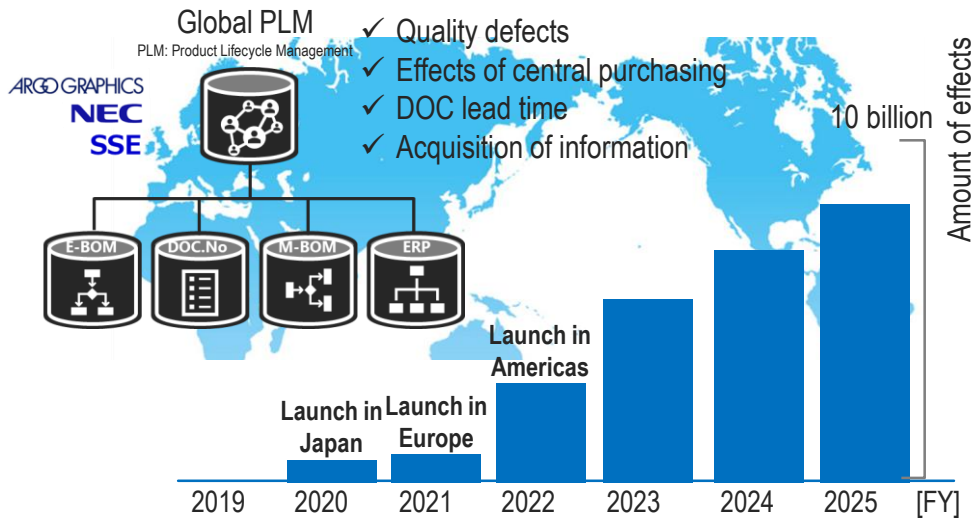
Including relocation of manufacturing sites etc.

Key Strategies (5 Reform Plans)

4 Cash flow generation through reform in assets structure

- Liquidation of global assets.
- Efficient cash management

Production Process Standardization Project [PPSP]

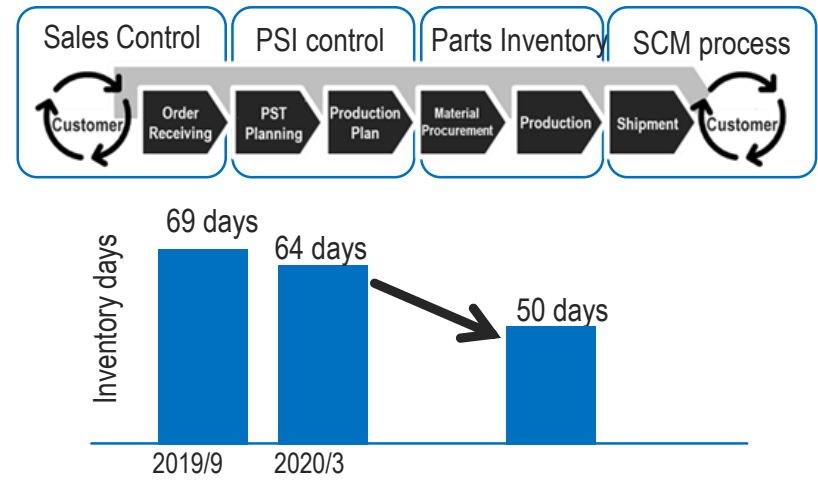


Strengthen production structure.

SCM Project in Europe

SCM: Supply Chain Management

Expand project activities globally from Europe.



Generate cash flow for business growth.

Key Strategies (5 Reform Plans)

5 Reform in system for implementation

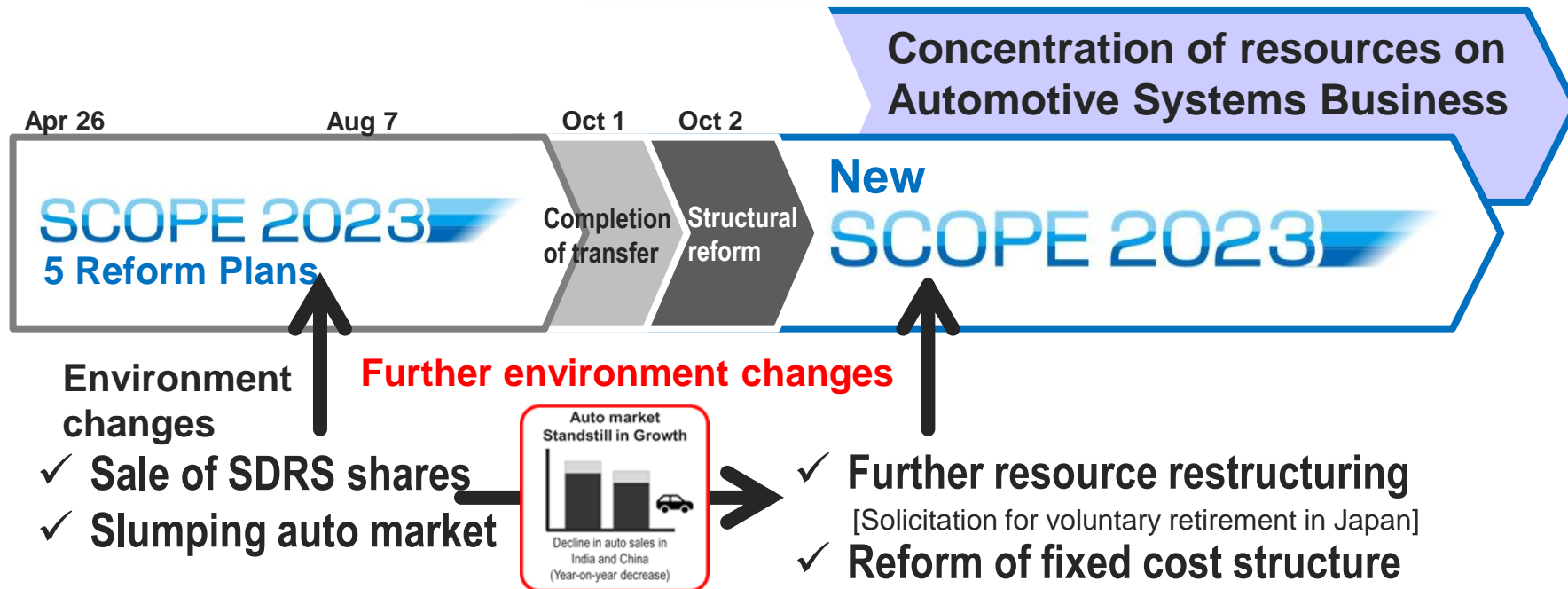
- Reform of corporate organization to enhance corporate value.
- Reform of personnel system to sustain continual growth.
- Contribution to achievement of SDGs through our business activities.

	2015	2016	2017	2018	2019
Organizational Reform	Holding company system with 7 business companies		5 business companies		4 business companies
		Reorganization of manufacturing subsidiaries	Withdrawal from LS and EP businesses		Transfer of RS
	[Purposes] Enhancement of organizational competency, clarification of roles and responsibilities, and improvement in organizational functions.	20 HQ's and 3 plants	8 HQ's		6 HQ's
		Overseas	Consolidation of Mexico plant	Consolidation of bases in China Closure of a base in Malaysia	Tech. center in Vietnam Relocation of European HQ
Improvement in Governance	Establishment of the corporate governance code				
		Assessment of board's effectiveness			
	[Purpose] Improvement in transparency of corporate management and acceleration of management speed		Executive Nomination and Compensation Committee		
				Ratio of outside directors: 1/3	
			Abolition of the advisor system		
	Improvement in decision-making process and management meeting system				

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Efforts to Respond Further Environment Changes



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Share Transfer of Sanden Retail Systems Corporation

Commercial Store Systems Business

- ✓ Changes in customer needs
- ✓ Decline in working-age population
- ✓ Environmental and social issues

Automotive Systems Business

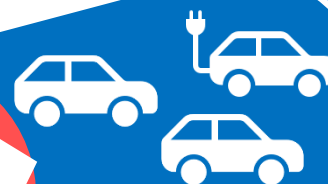
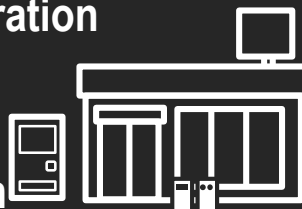
- ✓ Drastic transformation once in a century
- ✓ Structural change in auto industry

Transferee: Integral Corporation

Date of transfer: October 1, 2019

Business value: 50 billion yen

Gain on sale: About 24 billion yen



Steady Growth with Automotive Systems Business

Concentrate management resources to stabilize financial and business structures

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Summary of Consolidated Financial Results Forecast

[100 million yen]

	2019/3 Result	2020/3 Original Forecast	2020/3 Revised Forecast	Change from Previous Fiscal Year (%)	
Sales ^{*2}	2,739	2,750	2,150	(589)	(21.5%)
Operating Income	9	30	5	(4)	
Ordinary Income/Loss	6	25	(40)	(46)	
Net Income/Loss ^{*1}	(231)	5	90	+ 321	

*1 Net income: Profit of current term attributable to owners of parent

*2 Excluding sales of Retail Store Systems business

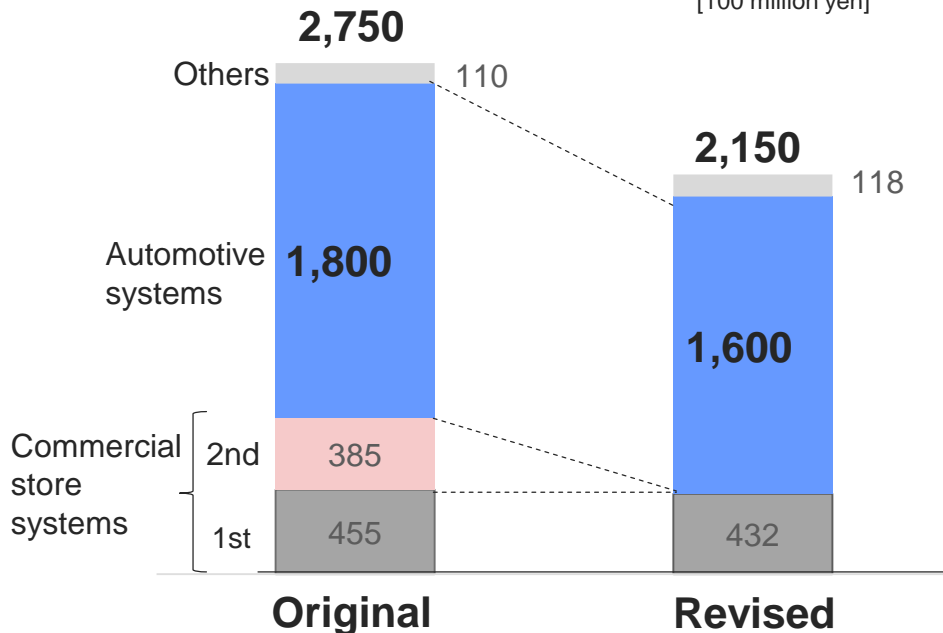
Exchange Rate ^{*3}	USD	111 yen	110 yen	108 yen	(3 yen)
	EUR	128 yen	125 yen	121 yen	(7 yen)

*3 Exchange rate: Average market rate

Difference between Original and Revised Forecasts

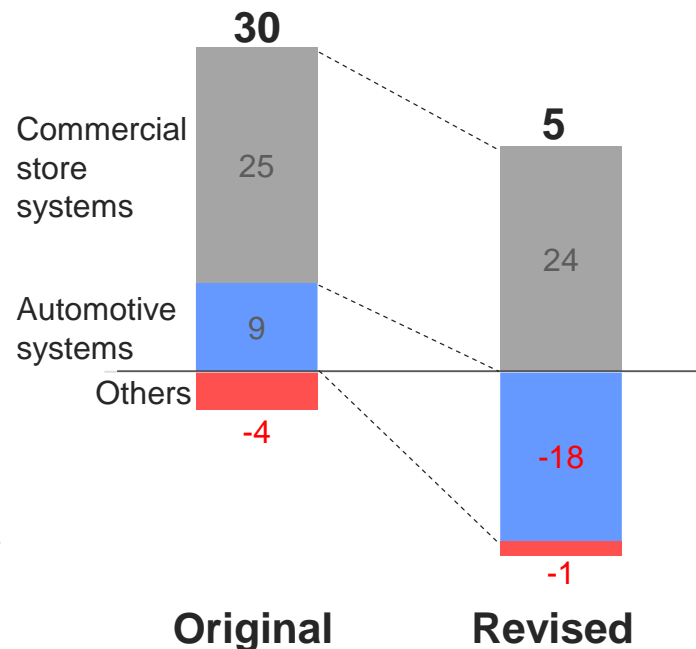
« Sales »

[100 million yen]

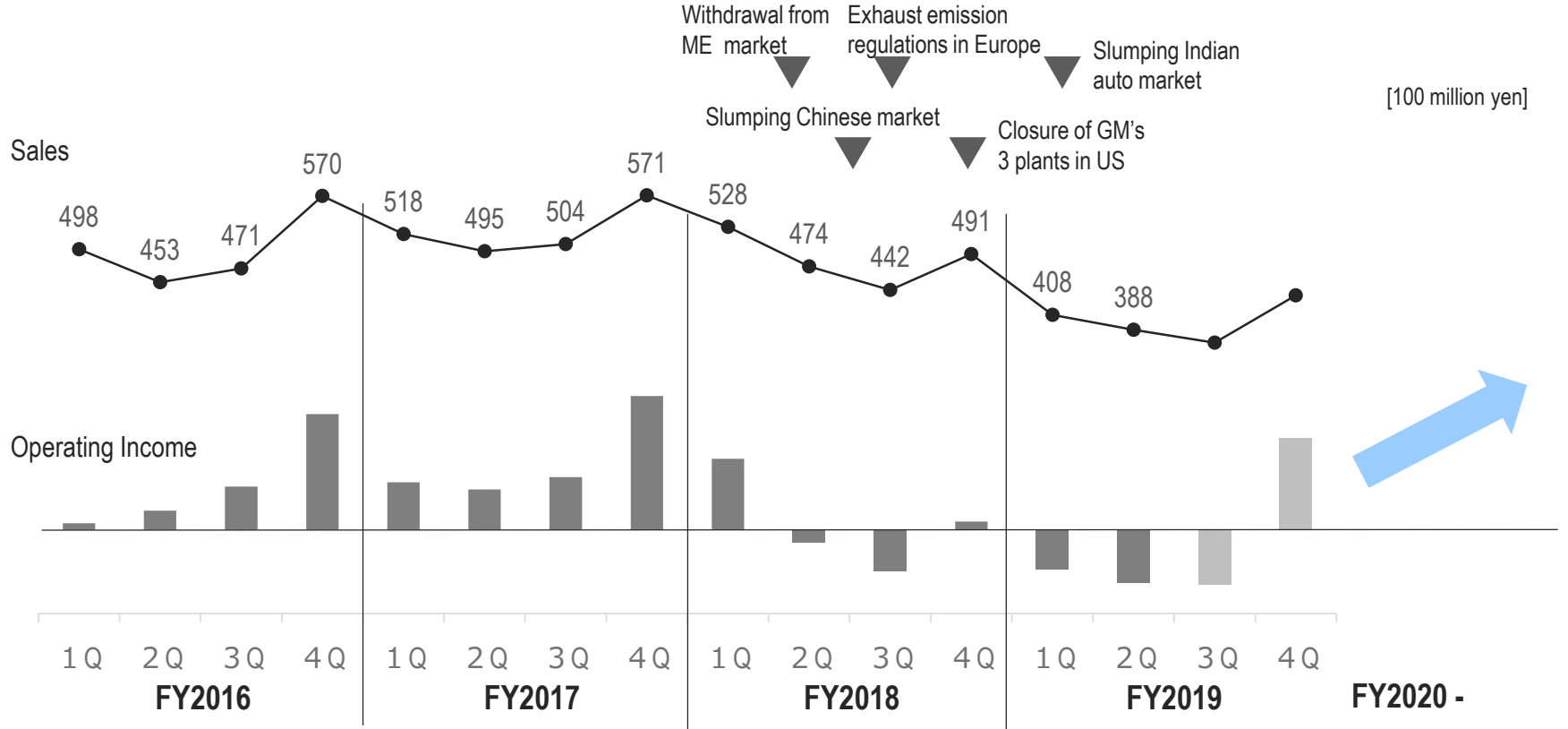


« Operating Income »

[100 million yen]

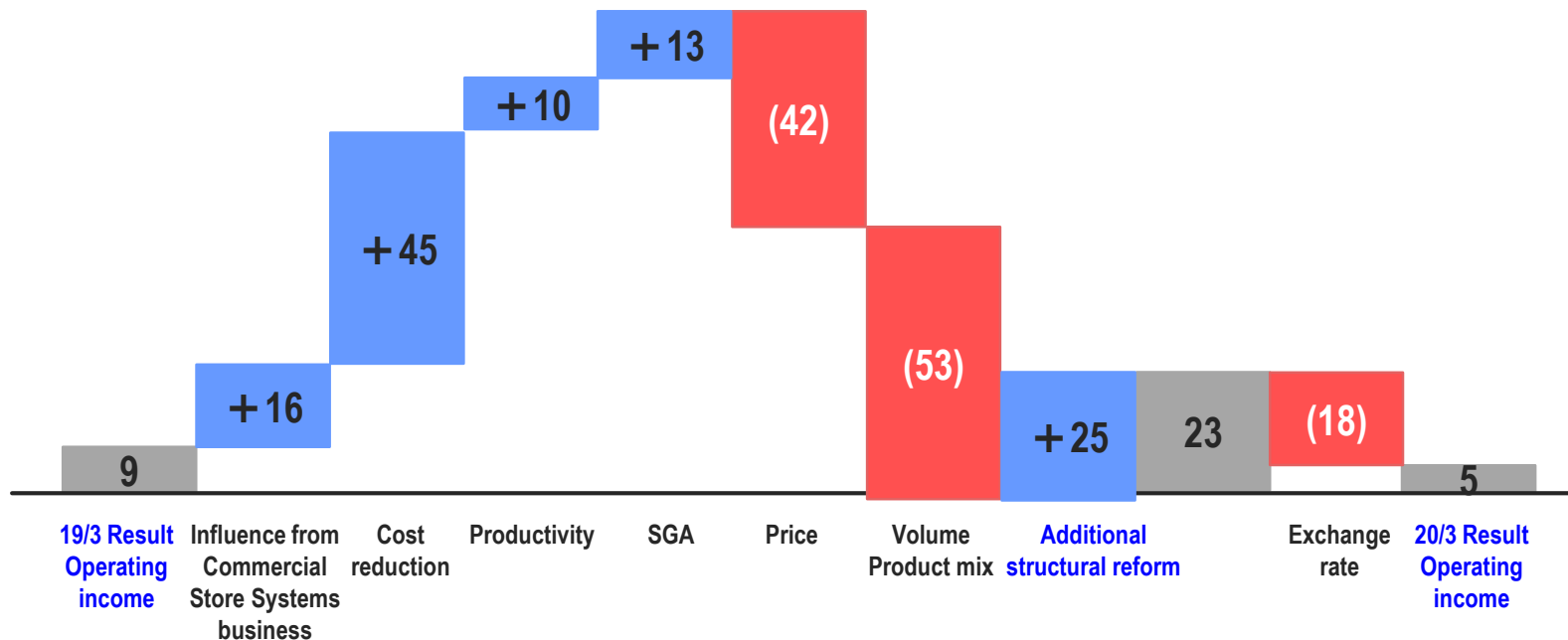


Quarterly Performance Trend of Automotive Systems Business



Changes in Consolidated Operating Income from Previous Year

[100 million yen]



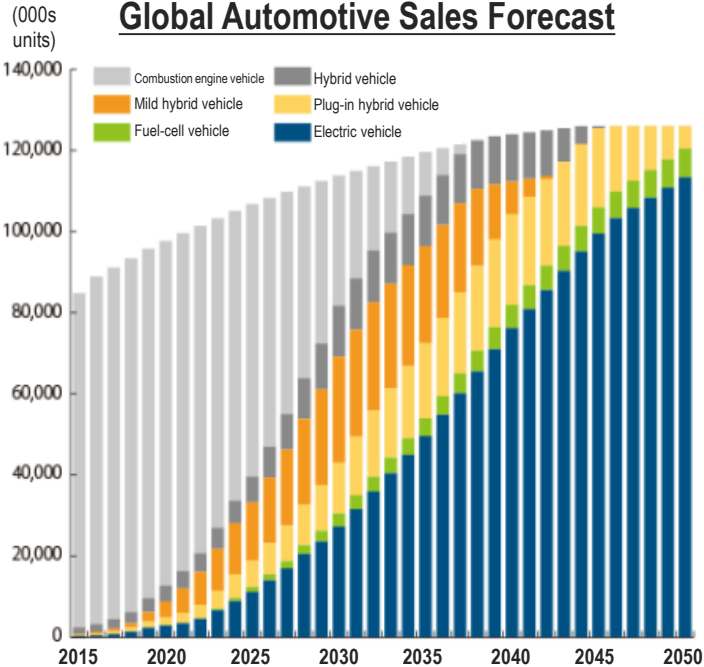
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Future Endeavors toward Growth Business Environment Changes in Auto Industry

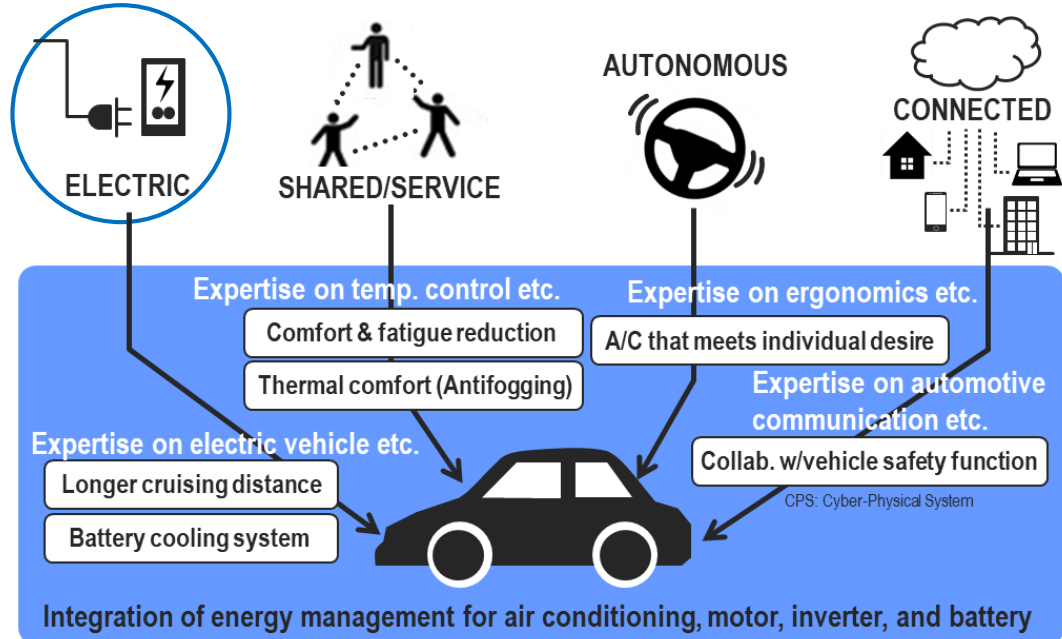
Nov. 7 2019

Collaborative creation & alliance with partner companies (Combination of wisdom)

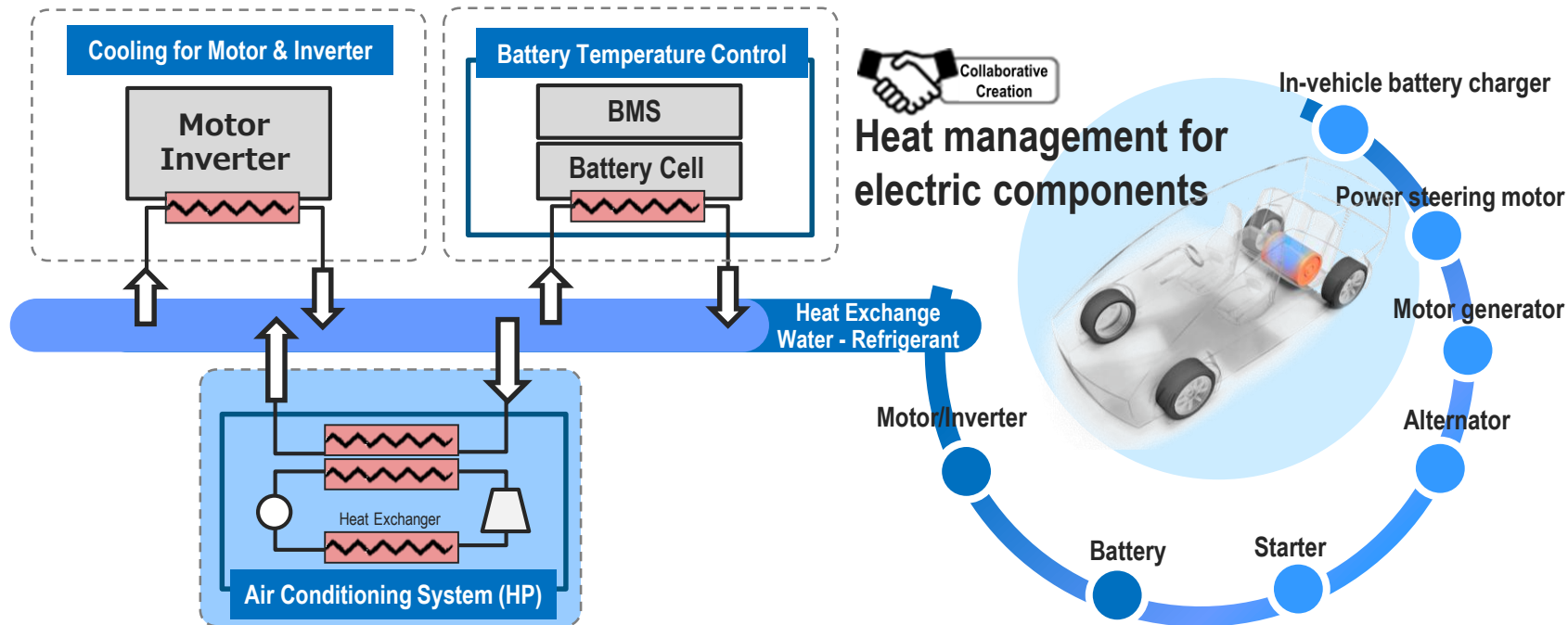


Source: Changes brought by EV (1) - Expansion of EV market (Daiwa Securities)

CASE and Air Conditioning System

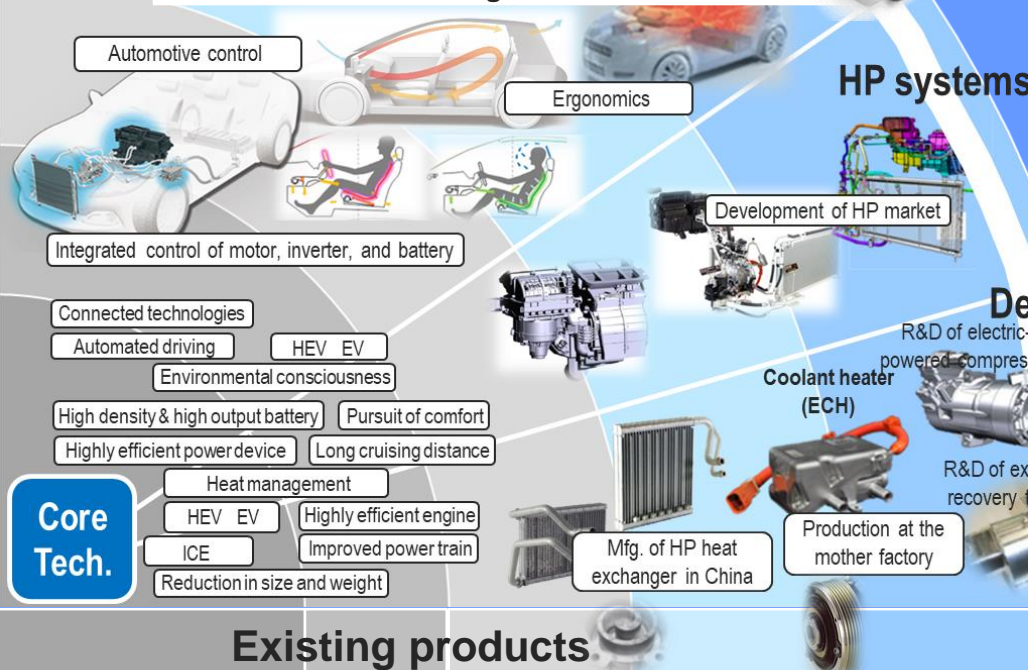


Collaborative Creation in the Field of Thermal Management for EV



Thermal Management for EV

Thermal Management for EV



Develop next-generation systems

CASE and Maas

Develop next-generation devices

Competitiveness & differentiation

Existing products

