

# Consolidated Financial Results for the Year Ended March 31, 2019

May 17, 2019

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- 2. New mid-term management plan (SCOPE 2023)**
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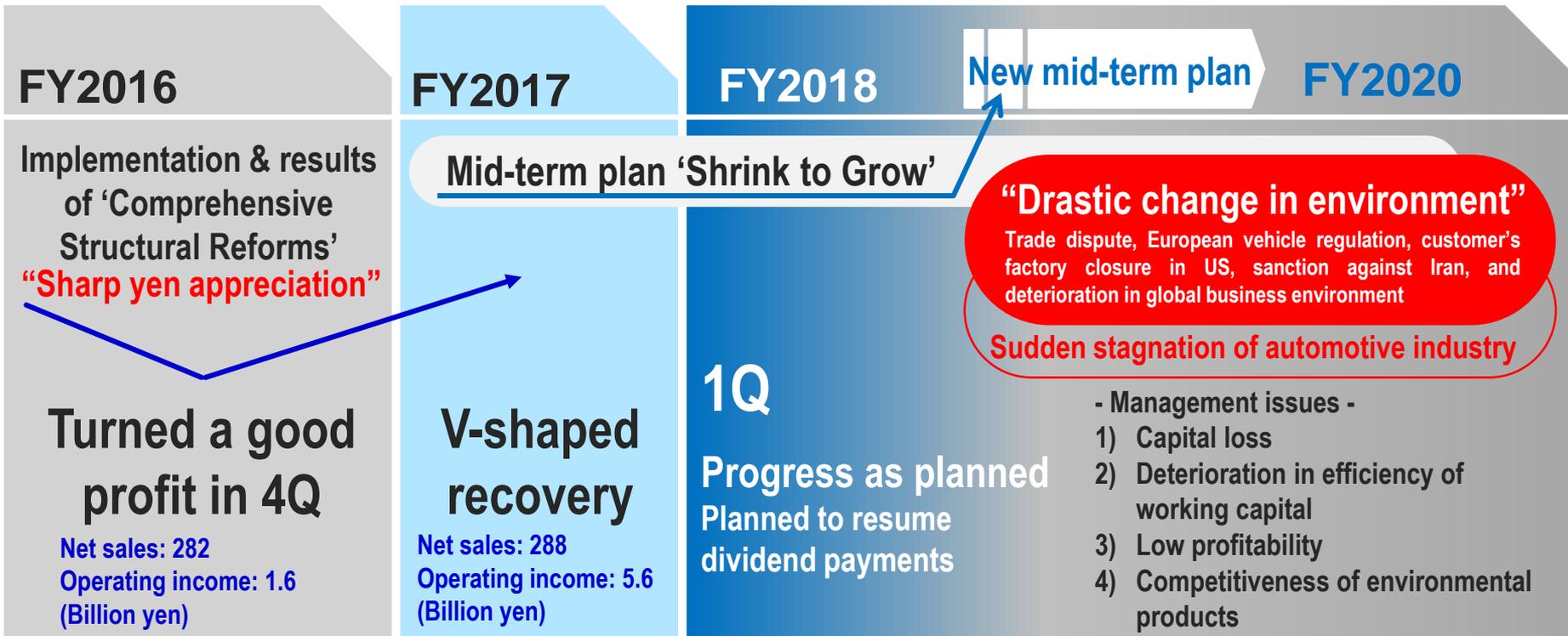
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# Concept and summary of the previous mid-term plan



# 1. Summary of the previous mid-term plan and management issues

## Overall assessment of activities based on the previous mid-term plan (FY2016)

2019/5/17

FY2016	“Comprehensive Structural Reforms”		Implementation items	Effects in FY2016 [100 millions of yen]	
				PL	CF
<b>Implementation &amp; results of “Comprehensive Structural Reforms”</b>  <b>“Sharp yen appreciation”</b>  <b>Turned a good profit in 4Q</b>  <b>Fruits of structural reforms: 3 billion yen</b>	1	Optimization of the business portfolio	□ Review of unprofitable business & SBU	—	—
	2	Consolidation & restructuring of bases & organizations	□ <b>Sale of Tokyo head office building</b> □ <b>Restructuring of bases in Japan, Americas, and Asia (8 to 2 subsidiaries)</b>	25 (Extraordinary gain)	37
	3	Optimum allocation of human resources	□ <b>Early retirement in domestic Sanden</b> □ <b>Optimum allocation of global human resources</b>	7	—
	4	Selection & concentration of investment	□ Investment decision according to the portfolio	4	—
	5	Global optimum procurement	□ <b>Promotion of global optimum procurement</b>	15	—
	6	Drastic cost reduction	□ Logistics reforms and reduction in prototype expenses	4	—
	7	Financial structure reforms	□ Liquidation of receivables	—	—

# 1. Summary of the previous mid-term plan and management issues

2019/5/17

## Overall assessment of activities based on the previous mid-term plan (FY2017)

FY2017	“4 Key Initiatives”	Implementation items	Effects in FY2017 [100 millions of yen]		
			PL	CF	
<b>Mid-term plan</b> <b>‘Shrink to Grow’</b> - Restart to achieve future growth -  <b>V-shaped recovery</b>  <b>Effects of structural reforms:</b> <b>8 billion yen</b> (+5 billion yen from the previous year)	1	Comprehensive cost transformation to improve profitability	<ul style="list-style-type: none"> <li>Reorganization of bases in China, Americas, and Asia</li> <li>Implementation of the measures for optimum human resources allocation</li> <li>Standardization and IT utilization</li> </ul>	Bases 5 HR 28 CD 17 Expense 23	—
	2	Asset efficiency enhancement to strengthen the overall financial structure	<ul style="list-style-type: none"> <li>Sale of cross-held stocks</li> <li>Sale of domestic real estate</li> </ul>	Stocks 60 (Extraordinary gain) Real estate 6 (Extraordinary gain) Liquidation of receivables & others —	88 10 59
	3	Optimization of the business portfolio to create corporate value	<ul style="list-style-type: none"> <li>Withdrawal from living &amp; environmental systems business</li> <li>Intensive resource allocation to the growing field such as EV.</li> </ul>	PF 7	—
	4	Management system reform to achieve sustainable growth	<ul style="list-style-type: none"> <li>Reinforcement of CG (Executive Nomination and Compensation Committee)</li> <li>Restructuring &amp; streamlining of the head office organization</li> <li>Delegation of authority to the business companies</li> </ul>	—	—

# Overall assessment of activities based on the previous mid-term plan

FY2018	“4 Key Initiatives”		Implementation items
<p>Mid-term plan ‘Shrink to <b>Grow</b>’</p> <p>- Get back on track for growth -</p> <p><b>Themes incorporated into the mid-term plan</b></p>	1	Comprehensive cost transformation to improve profitability	<ul style="list-style-type: none"> <li>□ Plan for <b>thorough review of the production system of automotive systems business.</b></li> <li>□ Realization of the concept of <b>innovative manufacturing facilities.</b></li> <li>□ Launch of the <b>manufacturing process standardization (G-BOM) project</b></li> <li>□ Planning &amp; implementation of streamlining of domestic indirect operation</li> </ul>
	2	Asset efficiency enhancement to strengthen the overall financial structure	<ul style="list-style-type: none"> <li>□ Non-business asset liquidation</li> <li>□ <b>Implementation of capital policy</b></li> <li>□ <b>Improvement in efficiency of working asset by establishing SCM system.</b></li> </ul>
	3	Optimization of the business portfolio to create corporate value	<ul style="list-style-type: none"> <li>□ <b>Completion of withdrawal from manufacturing operations</b> for the products related to the <b>living &amp; environmental systems business.</b></li> <li>□ <b>Implementation of the long-term business strategy of automotive systems business and development of ‘collaborative creation’ strategy.</b></li> <li>□ <b>Launch of operation at the world’s largest compressor factory in China (Structure to manufacture 15 million units).</b></li> <li>□ Intensive resource allocation to the cold chain business in Asia.</li> <li>□ <b>Risk minimization by withdrawing from the business in M.E. Asia.</b></li> </ul>
	4	Management system reform to achieve sustainable growth	<ul style="list-style-type: none"> <li>□ Downsizing and <b>functional enhancement</b> of the <b>head office organization at SDHD.</b></li> <li>□ Review of capital ties with business companies associated with delegation of authority.</li> </ul>

# Changes in external environment and their effects on Sanden

**Prolonging market slump worse than anticipated, reduction in effect of productivity improvement**

**External business environment**

## China

**Trade dispute between US and China**



- Downturn in Chinese vehicle market (Decline from the previous year)

## USA

**Economic stagnation**



Closure of customer's 3 factories

- Tariff issues  
Auto maker's factory closure

## Europe

**Tightening of fuel consumption regulations**

Sales decline by 20%



- Decrease in sales of diesel vehicles in Europe

## Middle East Asia

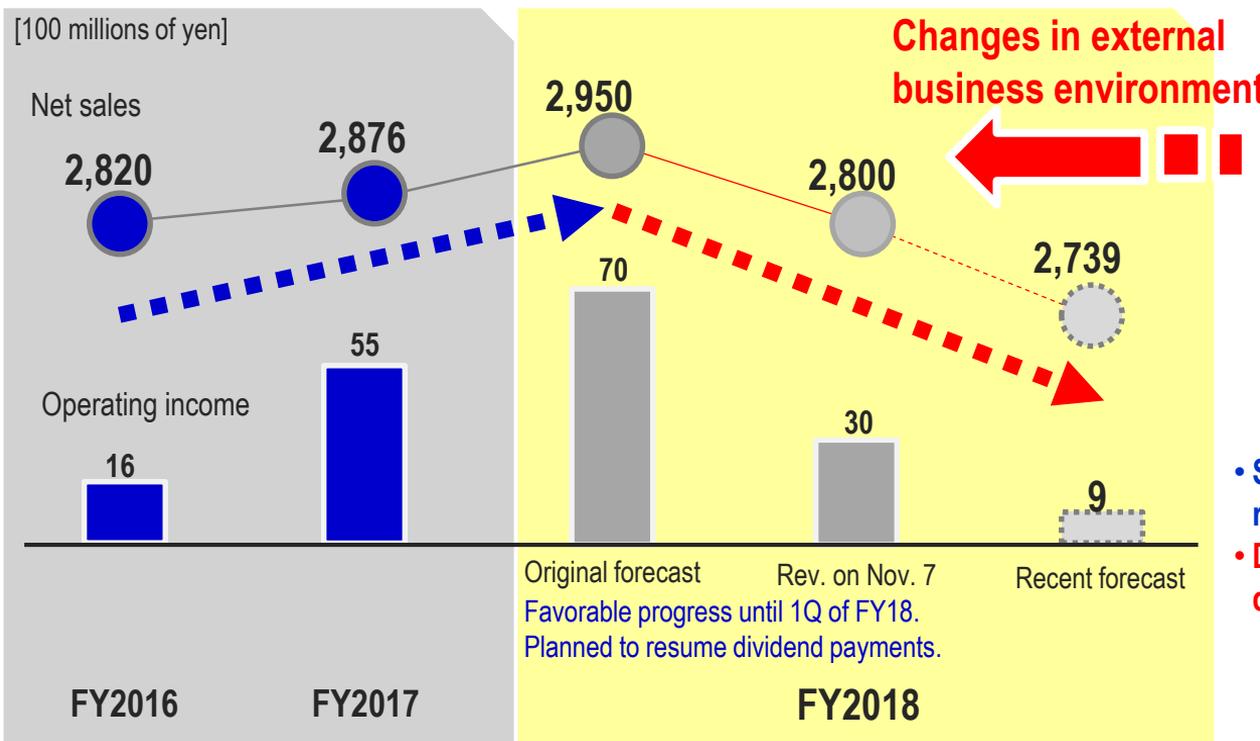
**US economic sanction against Iran**



- Stagnation of economic activities in Iran
- Economic slowdown in Iran

# Recent changes in performance

Favorable progress until 1Q of FY18. Review of business structure based on environmental changes



**China**

Trade dispute between US and China

Downturn to 28 million units

Downturn in Chinese vehicle market (Decline from the previous year)

**USA**

Economic stagnation

Closure of customer's 3 factories

Tariff issues

Auto maker's factory closure

**Europe**

Tightening of fuel consumption regulations

Sales decline by 20%

Decrease in sales of diesel vehicles in Europe

**Middle East Asia**

US economic sanction against Iran

Stagnation of economic activities in Iran

Economic slowdown in Iran

• Structural reforms, such as cost reduction, were on track.

• Deterioration in profit performance due to drastic sales decline.

We have caused trouble to many stakeholders.

## Management issues

**Reconstruct our financial foundation.**

- Reinforce capital.
- Use working assets more effectively.
- Increase investment efficiency.

**Improve profitability.**

- Pursue the in-house/outsourcing strategy for parts supply.
- Enhance product competitiveness.
- Improve productivity of direct & indirect operations.

**Carry through further structural reforms.**

- Restructure the global bases (Optimum production system).
- Improve product & customer portfolios.
- Reduce fixed cost.

**Grow our business.**

- Promote intensive resource allocation to development of the advanced technologies furthermore. (Electric driven compressor, heat pump system, coolant heater, etc.)
- Depart from self-sufficiency policy to accelerate growth.

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2-1. History of Sanden group

2-2. Ideal Structure (Vision)

2-3. Significance and aims of the new mid-term management plan

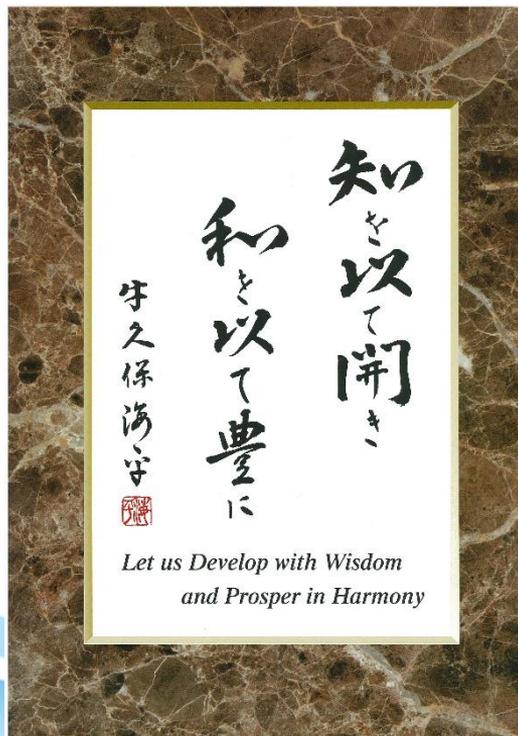
2-4. Management policy (Objectives)

2-5. Key strategies (5 key activities)

2-6. Objectives and strategies for each business segment

2-7. System innovation for implementation

## History of Sanden group (Company Principles)



We have "Challenge and Innovation"  
as our corporate culture.



# History of Sanden group (New market development)

## Quick global development to develop markets & customers

1960	1970	1980	1990	2000	2010
<p>● '69 Visiting Michel first time</p> 	<p>● '70 Technology alliance with Michel</p> <p>● '74 Acquisition of global compressor sales rights from Michel</p> <p>● '74 Establishment of Sankyo International (USA)</p> <p>● '74 Opening of branch office of Sankyo International in Singapore</p> <p>● '74 Establishment of Sankyo International (UK)</p> <p>● '77 Establishment of Sankyo International (Australia)</p> <p>● '78 Establishment of Sankyo Air Conditioning (Malaysia)</p> <p>● '79 Establishment of Sankyo International (Malaysia)</p>	<p>● '80 Opening of branch office of Sankyo International in Taiwan</p> <p>● '80 Renamed to Sankyo International (England)</p> <p>● '80 Establishment of a new plant of Sankyo International (USA)</p> <p>● '81 Establishment of Sanden Auto Air Conditioning in Singapore</p> <p>● '82 Establishment of Sanden Vikas (India)</p> <p>● '82 Establishment of Singapore plant</p> <p>● '82 Establishment of Sanden Mexico</p> <p>● '88 Establishment of Sanden Jaya Indonesia PT</p> <p>● '88 Establishment of Sanden Engineering Industries (Pakistan)</p> <p>● '88 Establishment of Sanden vending machine maker (USA)</p>	<p><b>Development of automotive A/C market in Europe</b></p> <p>Agency for Natural Resources and Energy Secretary-General's Award</p> <p>Ozone Layer Protection Award</p> <p>● '92 Establishment of Sanden Theco (Thai)</p>	<p><b>Development of automotive A/C market in China</b></p> <p>China plant in Shanghai</p> <p>● '00 Establishment of Technical Center in Germany</p> <p>● '04 Establishment of Poland plant</p>	<p><b>Participation in electric driven device field in the world</b></p> <p>Office Korea</p> <p>Sanden Vikas Precision Parts (India)</p> <p>die casting plant in Thai</p> <p>● '10 Establishment of Sanden Chongqing Automotive Air-conditioning</p> <p>● '10 Establishment of Sanden Shanghai Thermal Environmental Systems</p> <p>● '13 Establishment of a new plant in Mexico</p> <p>● '13 Establishment of 2nd plant in Poland</p> <p>● '16 Establishment of HVAC line at Poland plant</p> <p>● '16 Addition of Compressor line to Poland plant</p> <p>● '17 Establishment of Climate Wind Tunnel in Tianjin</p> <p>● '18 Establishment of a new plant of Sanden Huayu Automotive Air-conditioning</p>
<p><b>Entry into automotive A/C market development in Americas</b></p> <p>Technology alliance with Michel</p> <p>Acquisition of global sales rights</p>	<p><b>Development of automotive A/C market in Asia</b></p> <p>Patent assignment from Michel</p>	<p><b>Entry into global market of vending machine</b></p> <p>Acquisition of Vendo US</p>	<p><b>Expansion of vending machine business</b></p> <p>Establishment of market position in CVS field</p>	<p><b>Establishment of market position in global CVS field</b></p> <p>● '05 Establishment of Sanden Verano America</p>	<p><b>Establishment of market position in Asian clod chain field</b></p>

# History of Sanden group (Independent company)

## Broad range of first-class customer base

### Global First-Class Customers



#### Automobile

- Alfa Romeo
- Audi
- Citroën
- Daihatsu
- Daimler
- Ferrari
- FIAT
- Ford
- GM
- Honda
- Isuzu
- Mazda
- Mitsubishi
- Nissan
- Opel
- Perodua
- Peugeot
- Proton
- Renault
- Great Wall Motor Co.
- Geely Automobile
- SAIC-GM-Wuling Automobile



- Rolls-Royce
- Rover
- Saab
- SUBARU
- SUZUKI
- Toyota
- TATA
- VW



#### Truck

- Freightliner
- Mack
- Scania
- Volvo



#### Construction equipment

- Caterpillar
- Hitachi
- Kobelco
- KOMATSU



#### Automotive components

- AISIN
- Keihin



#### Foods & Beverages

- Asahi
- Coca-Cola
- DyDo
- Dr Pepper
- KIRIN Beverage
- ITO EN
- Nestle
- PEPSICO
- POKKA
- Suntory
- 7Up



#### Convenience store chain

- Family Mart
- LAWSON
- Seven & I



#### Home care & medical products

- Unilever
- GlaxoSmithKline



#### Logistics

- Yamato Transport



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2-1. History of Sanden group

**2-2. Ideal Structure (Vision)**

2-3. Significance and aims of the new mid-term management plan

2-4. Management policy (Objectives)

2-5. Key strategies (5 key activities)

2-6. Objectives and strategies for each business segment

2-7. System innovation for implementation

## 2. New mid-term management plan Ideal Structure 【Society in 2030】

2019/5/17



## 2. New mid-term management plan Ideal Structure 【Society in 2030】

2019/5/17



New heat/cool technologies + New hygiene control technologies + IoT technologies + AI technologies + ...



## 《Ideal Structure》

Open up a new era and become a company that is trusted by all the people so that we will be able to create an enriched society in which environment and comfort are harmonized.

# Significance and aims of the new mid-term management plan



# Management policy (Objectives)

## SCOPE 2023

Create the new Sanden by carrying out ‘structural reform’ for reestablishment of management foundation and promoting ‘collaborative creation’ for sustainable growth.

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

- New mid-term management plan
- Basic policy
- Implementation period
- Consolidated management indices

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

**S**tructure      Comprehensive reform of production system  
**C**ollaboration      Growth through “collaborative creation”  
**O**rganization      Reforms in system for implementation  
**P**rofitability      Enhancement of basic earning power  
**E**volution      Cash flow generation by reforming assets structure

## Key strategies (5 key activities)

### 5 key activities

### Priority Measures

1

**Comprehensive reorganization of production system**

- Reorganize the global bases and establish optimal personnel structure

2

**Enhancement of basic earning power**

- Pursue synergic “cost creation capability”.
- Regain the “workplace capabilities” through production innovation.

3

**Growth by actively promoting ‘collaborative creation’**

- 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**

- Reinforce the capital.
- Streamline the working assets.

5

**System innovation for implementation**

- 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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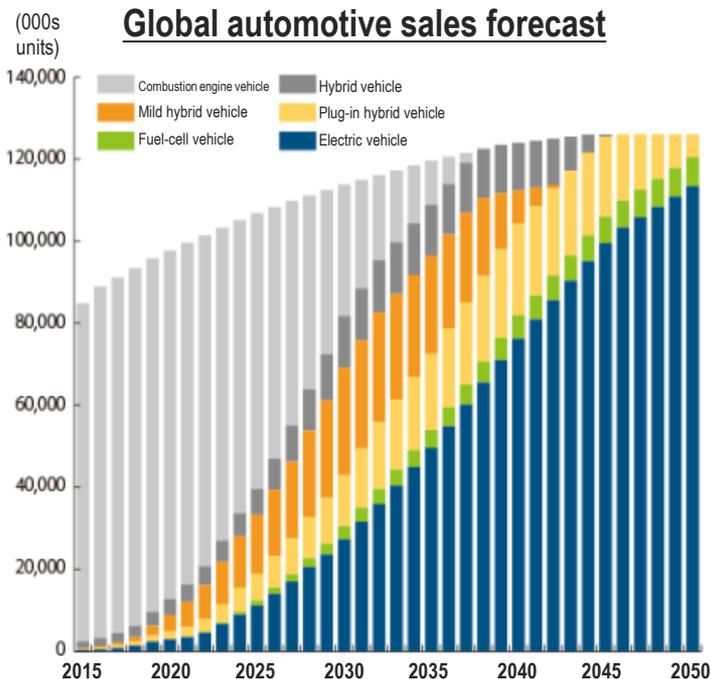
2-7. System innovation for implementation

## 2. New mid-term management plan - Objectives and strategies of each business segment

### Automotive systems business 【Ideal Structure】

2019/5/17

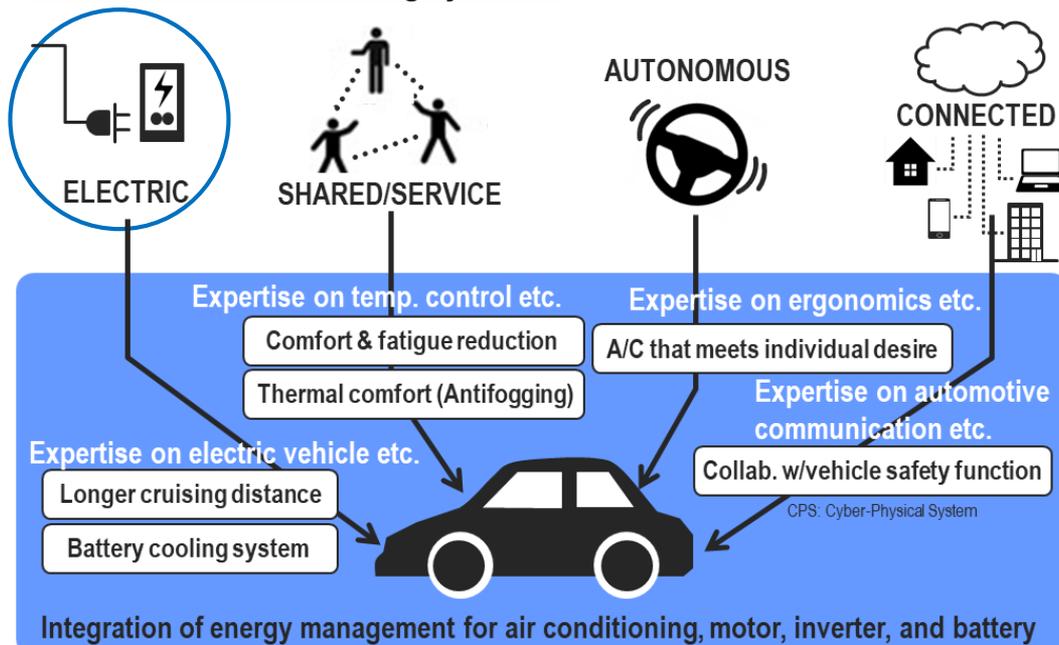
Obtain system expertise quickly and promote “collaborative creation” with partner enterprises



\* Figures for 2017 and the following years are forecasts.

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

#### CASE and air conditioning system

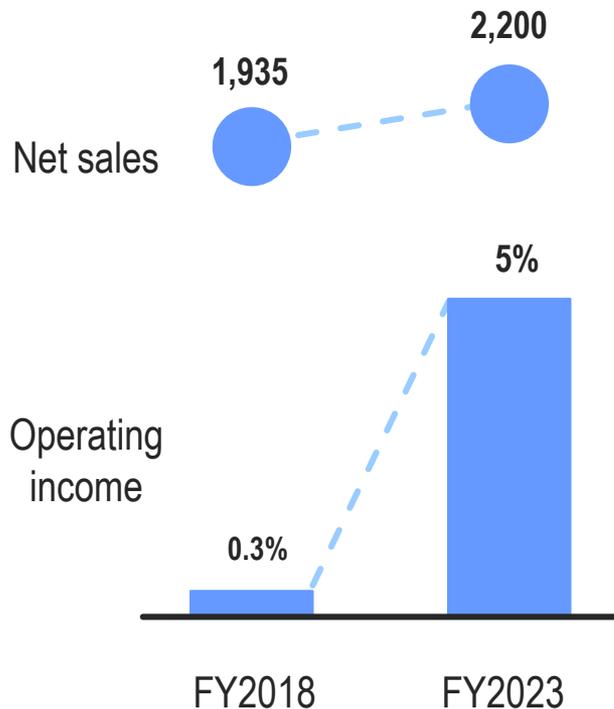


## 2. New mid-term management plan - Objectives and strategies of each business segment

### Automotive systems business 【Objectives & Strategies】

2019/5/17

[100 millions of yen]



**Comprehensive reorganization of production system**

- Integrate and streamline the global compressor production system in the world.
- Reorganize the bases in China and integrate the functions to strengthen collaboration.

**Enhancement of basic earning power**

- Pursue the synergetic “cost creation capability”.
  - Global optimum procurement, promotion of VE for clutches, etc.
- Regain the “workplace capabilities” through production innovation.
  - Technological innovation at the mother plant and overseas development of technologies.

**Growth actively promoting ‘collaborative creation’ by**

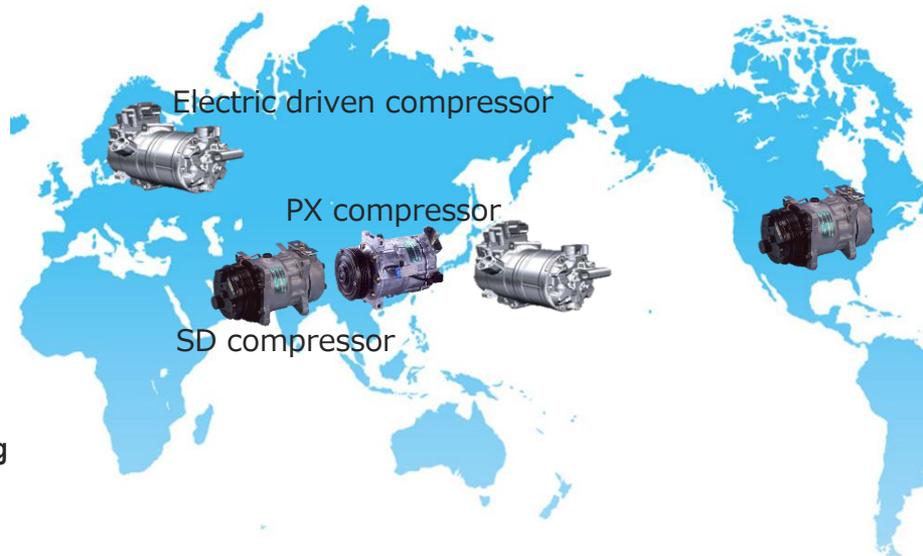
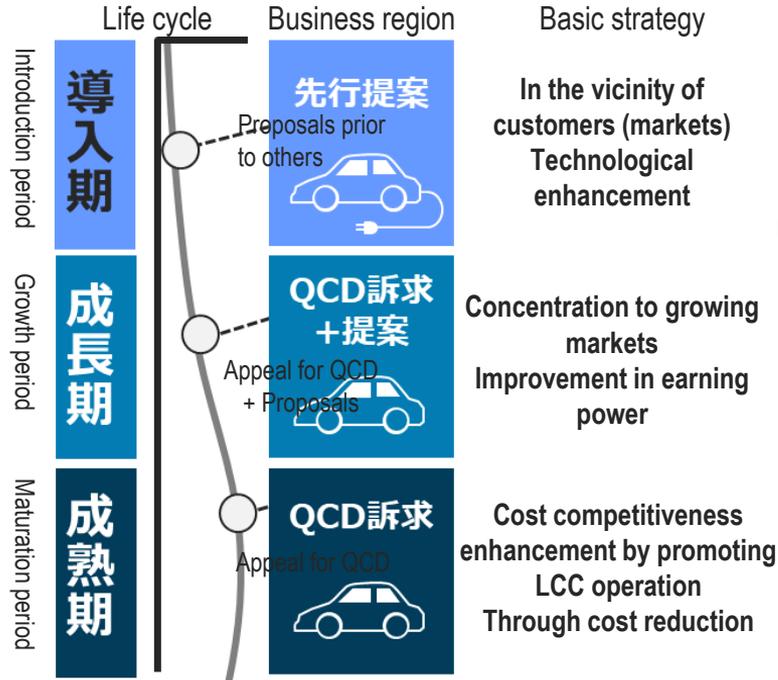
- Evolution to an integrated air conditioning corporation
  - Launch of the next-generation key devices to open up new markets.
  - Creation of new customer value through energy control and optimum heat control technologies.

## 2. New mid-term management plan - Objectives and strategies for each business segment

### Automotive systems business 【Structural reforms in prod. system】

2019/5/17

Reform the global production system based on market condition and customer needs



## Automotive systems business 【Enhancement of basic earning power】

# Innovate in 'workplace capabilities' through integration of craftsmanship and leading-edge manufacturing technologies

Rebuild "Sanden that is proud of excellent workplace capabilities as its strength".

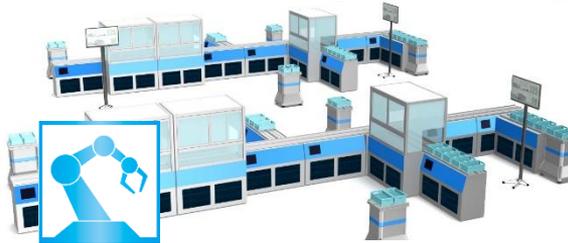
### Leading-edge future manufacturing factory



- Seamlessly & modularly integrated mfg.
- Efficient mfg. on innovative assembly lines  
(80% improvement in labor productivity on the model line)
- Efficient mfg. with WMS, MES, and PLM

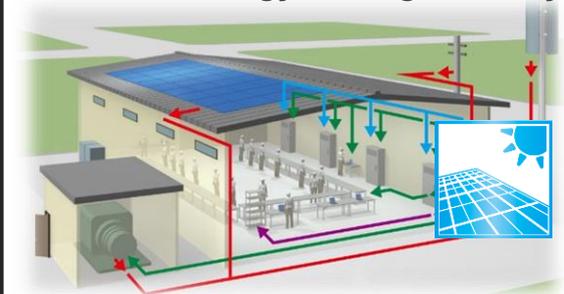
WES: Warehouse Management System  
MES: Manufacturing Execution System

### Fastest prod. with shortest lead time through lean mfg.



- Smart factory by integrating & consolidating lines
- Establishment of global platform on achievement of innovation in machining
- Prevention of loss and innovation in logistics efficiency by utilizing IoT

### The most advanced environment-conscious factory in views of energy saving & safety



- "Micro grid system" consisted of electric generation, electricity storage, and control
- Energy monitoring with FEMS
- Realization of ZEB

# Improve “cost creation capability” by concentrating internally existing intelligence

## Promotion of global optimum procurement

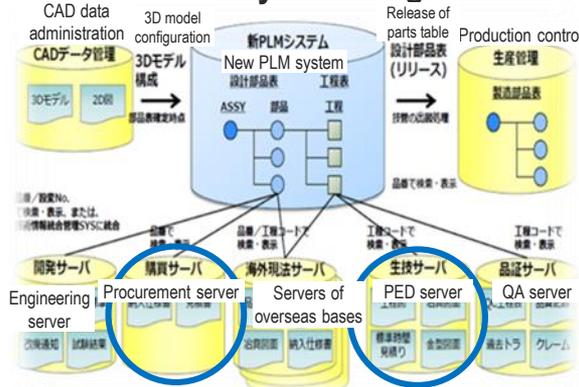


- Accelerate cost reduction.
- Strengthen collaborative alliance with JV's in China and India.
- Promote global data sharing by practically utilizing IT.

(Established the global procurement organization in 2018.)

## PLM

### Product Lifecycle Management



- Establish G-BOM system to strengthen competitiveness.

(Project launch in 2017, utilization for commercial store systems business in 2019, and for automotive systems business in 2020)

## Manufacturing engineering

VE promotion driven by manufacturing competitiveness

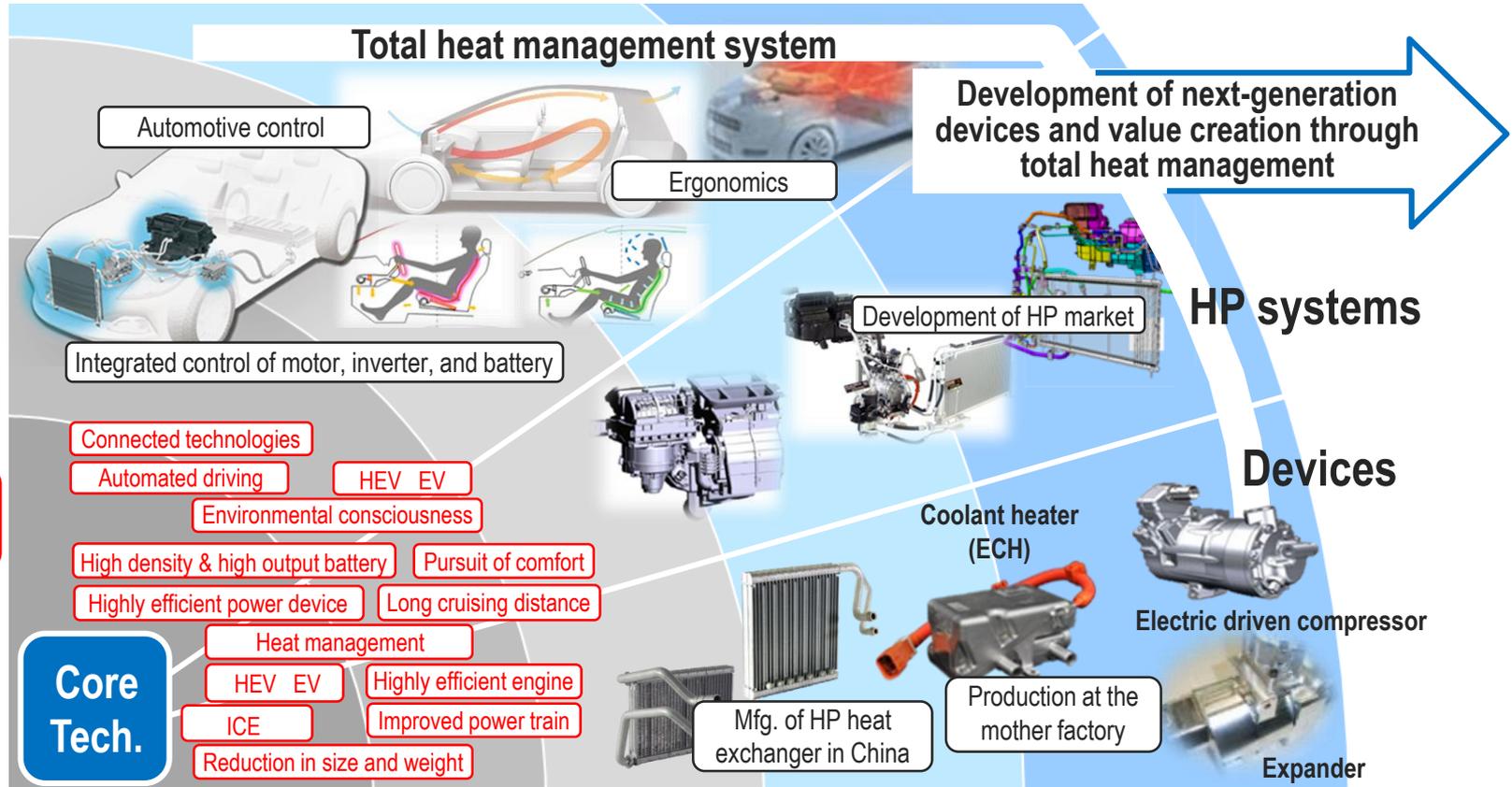


- Concurrent development of advanced mfg. tech's
- Administration for advanced elemental mfg. tech's
- Synchronization of DR for product and MR (manufacturing review) for mfg. tech's

## 2. New mid-term management plan - Objectives and strategies of each business segment

# Automotive systems business 【Growth through “Collaborative Creation”】

2019/5/17

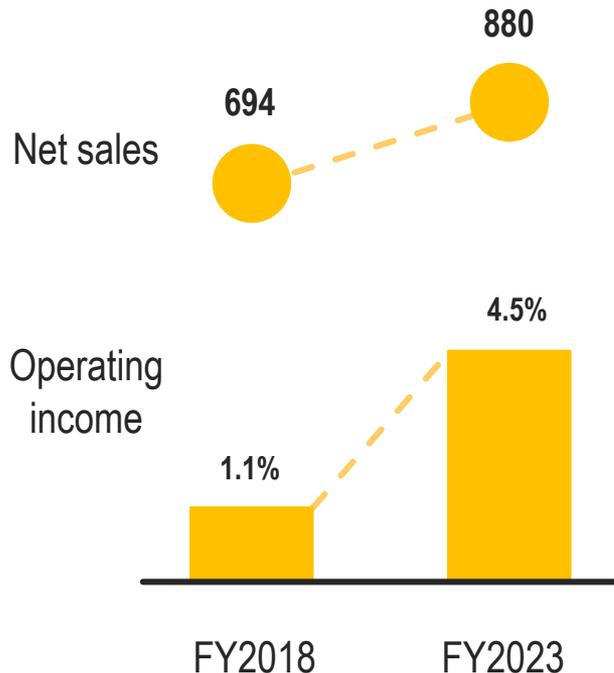


## 2. New mid-term management plan - Objectives and strategies for each business segment

### Commercial store systems business 【Objectives and strategies】

2019/5/17

[100 millions of yen]



**Comprehensive reorganization of production system**

- Reform the manufacturing system by introducing the cell company production method.
  - High-mix low-volume production system and global development

**Enhancement of basic earning power**

- Reform the manufacturing, logistics, and maintenance service functions by utilizing IoT.
  - Consolidation & elimination of domestic bases
  - Establishment of the construction/maintenance system in Asia region

**Growth by actively promoting 'collaborative creation'**

- Develop market-leading technologies.
  - Launch of the next-generation vending machine (MMV)
  - Business expansion to the food and logistics business fields by utilizing the precision temperature control technology.
  - Proposal of the next-generation commercial store in which IoT is practically utilized.
- Execute the partner strategy to achieve growth in the world.
  - Acceleration of growth in Asia region through collaboration with the local partners.

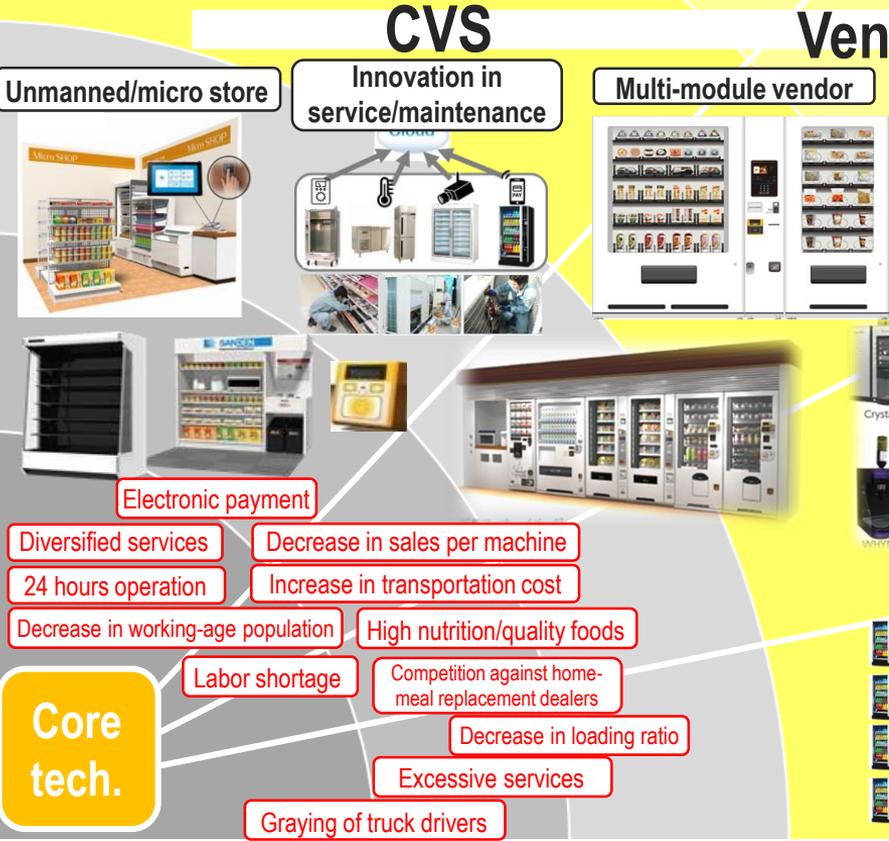
## 2. New mid-term management plan - Objectives and strategies for each business segment

2019/5/17

# Commercial store systems business 【Growth through “Collaborative Creation”】

Domestic market

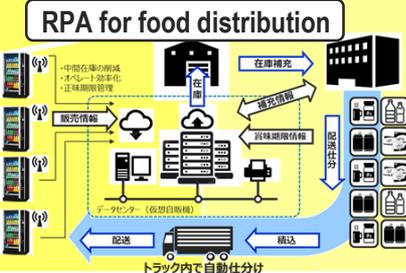
Social issues



Solve social issues by utilizing core technologies to achieve further growth.

**Eating-out**

- Pursuit of deliciousness
- Freshness preservation control



**Logistics**

## 2. New mid-term management plan - Objectives and strategies of each business segment

# Retail store systems business 【Growth through “Collaborative Creation”】

2019/5/17

## Deploy the local partner strategy based on social needs



# System innovation for implementation

### Key Initiatives

### Measures

1

Reform of corporate organization to enhance corporate value

- Restructure organization to strengthen strategic function and group management.
- Reform operating processes by utilizing IT solutions that improve management efficiency.

2

Reform of personnel system to sustain continual growth

- Establish a global personnel system by which diverse human resources can play active roles.
- Reform the incentive system that is a driving factor of mid-term growth.
- Reform the education & training system to develop management executives of the next generation.

3

Contribution to achievement of SDGs through our business activities

- Solve social issues and increase customer satisfaction through new technology development.
- Implement work style reform to revitalize business activities.

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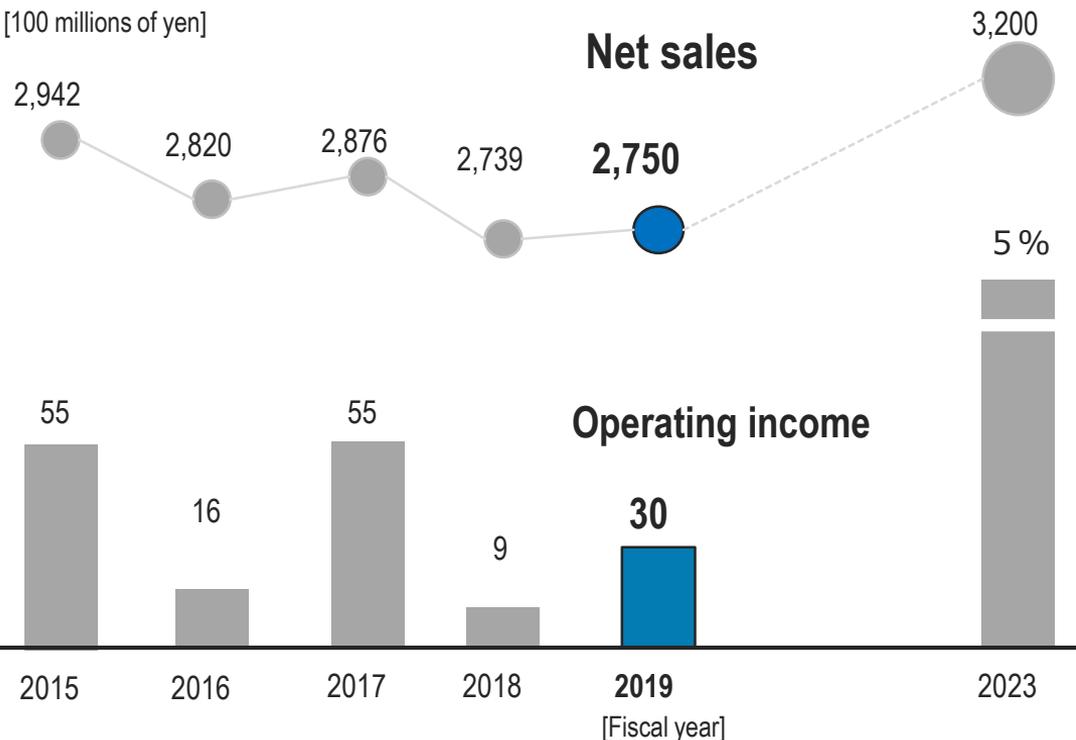
## 3. Forecast for the year ending March 31, 2020

### 3. Earning forecast

2019/5/17

## Earning forecast for the year ending March 31, 2020

[100 millions of yen]



	FY2018 Results	FY2019 Forecast
Net sales	2,739	2,750
Operating income	9	30
Ordinary income	6	25
Net income/loss*	▲ 231	5
Capital adequacy rate	8%	13%
Exchange: USD	111 yen	110 yen
EUR	128 yen	125 yen

\* Net income/loss attributable to owners of the parent

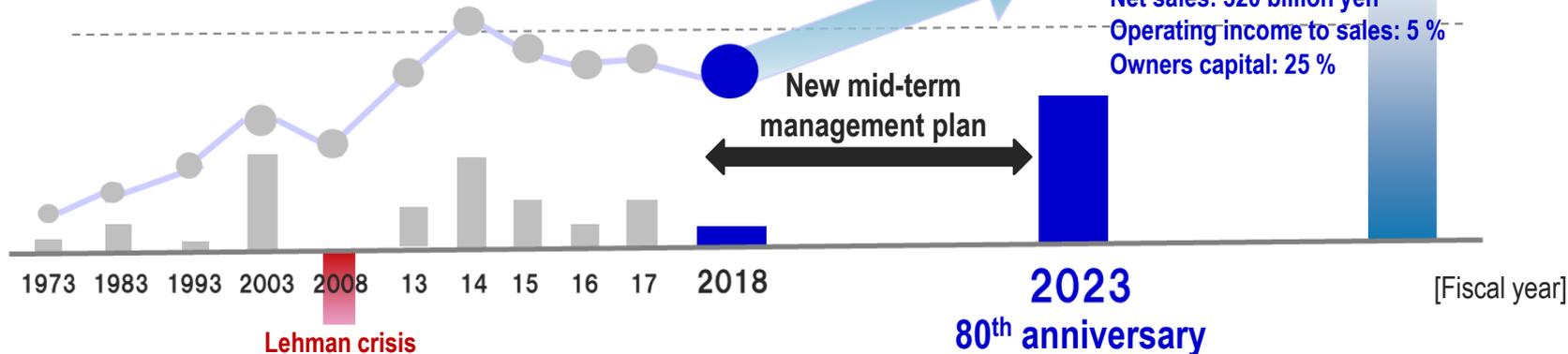
## SCOPE 2023

Create the new Sanden by carrying out 'structural reform' for reestablishment of management foundation and promoting 'collaborative creation' for sustainable growth.

Open up a new era and become a company that is trusted by all the people so that we will be able to create an enriched society in which environment and comfort are harmonized.

**Ideal Structure**  
 "Comprehensive Air Conditioning Company"

**[Mid-term Management Objectives]**  
 Net sales: 320 billion yen  
 Operating income to sales: 5 %  
 Owners capital: 25 %



# SCOPE 2023

**Open up a new era and become a company that is trusted by all the people so that we will be able to create an enriched society in which environment and comfort are harmonized.**

## **Cautionary Note Regarding Outlook Statements**

Forward-looking statements in this earnings release, such as forecast of results of operations, are based on the information currently available and the certain assumptions that we regard as reasonable. Therefore, actual results may differ materially from those contained in or suggested by any forward-looking statements.