

Financial Results Briefing for Fiscal 2019

July 1, 2020

Katsuya Nishi

Representative Director & President
Sanden Holdings Corporation



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1. Financial results for Fiscal 2019
2. Mid-term management plan (SCOPE 2023)
3. Future plan

Points of financial results for Fiscal 2019

2020/7/1

- 1 The shares of Sanden Retail Systems were transferred to achieve further growth by concentrating the resources on the automotive systems business.
- 2 The 5 structural reforms listed in the mid-term management plan 'SCOPE 2023' were implemented as planned.
- 3 The sales from automotive systems business decreased due mainly to decrease in automotive production and the global pandemic of COVID-19.
- 4 The net debt decreased by 43.6 billion yen from the end of previous fiscal year to 73.9 billion yen. The equity ratio increased from 7.7% at the end of previous fiscal year to 11.1%.

On October 1, 2019, Sanden Holdings sold its consolidated subsidiary, Sanden Retail Store Systems Corporation, to Integral Corporation at the business value of 50 billion yen with gain on sale of about 24 billion yen. Thus we became able to concentrate our resources on the automotive systems business, and we have arrived at a decision to accomplish new growth through collaborative creation as well as enhancement of business competitiveness.

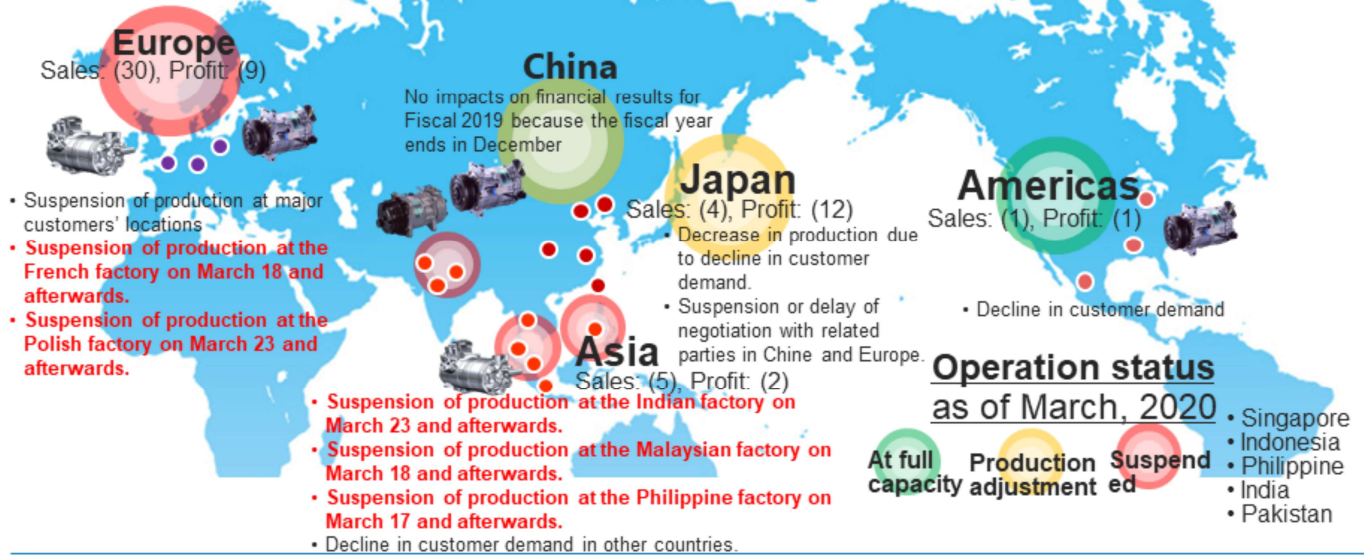
We aggressively pursued the reorganization of global production system, including voluntary retirement in the domestic Sanden, the innovation in production engineering technologies at the mother factory, and other structural reform items. The effects of those activities are becoming apparent in the financial results for Fiscal 2019.

However, we finally stopped short of cancelling out the negative effects that appeared in Fiscal 2019, such as stagnation of market growth especially in India and China and sharp decline in demand due to COVID-19 pandemic.

Net Debt improved to ¥73.9 billion (down ¥43.6 billion from the end of the previous fiscal year) and the equity ratio to 11.1% (7.7% at the end of the previous fiscal year), with a large contribution from the sale of distribution system business.

Impacts of COVID-19 pandemic on Fy2019 business in each region 2020/7/1

[In 100 million yen]



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In 23 countries where Sanden sites 49 business locations, Sanden experienced the negative effects of COVID-19 pandemic and the paralysis of social infrastructure as a result of lockdown on our production operations, such as production adjustment in China, Europe, USA, and Japan, and the long-lasting production shut-down in India and some Asian countries.

In March, 2020, Sanden had to suspend its production operations at the manufacturing locations in France, Poland, India, Philippine, and Malaysia.

The negative effects of suspension of sales and manufacturing especially in India and Europe became significant.

Sanden Japan suffered from reduction in product shipment to China due to shut-down of operations and demand decline even after restarting operations in China.

Sanden's overseas subsidiaries in other countries also suffered from sales decline despite resumption of their normal operations.

Summary of consolidated financial results for Fiscal 2019

2020/7/1

[In 100 million yen]

	Results for Fiscal 2018	Forecast announced on November 6	Results for Fiscal 2019	Year-on-year comparison	Difference from forecast	
Net sales	2,739	2,150	2,049	-690 -25.2%	-101 -4.7%	
Operating income	9	5	(34)	-43	-39	
Ordinary income	6	(40)	(97)	-103	-57	
Net income attributable to owners of parent	(231)	90	23	+254	-67	
* Exchange	USD	111yen	108yen	109yen	-2yen	+1yen
	EUR	128yen	121yen	121yen	-7yen	0yen

Exchange: Average market rate

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Net sales were 204.9 billion yen, operating loss was 3.4 billion yen, ordinary loss was 9.7 billion yen, and net income for the year was 2.4 billion yen.

The major causes of net sales decline of 69 billion yen are as follows.

1. Net sales from the retail systems business in and after the 3rd quarter were excluded because of the deconsolidation after the share transfer implemented on October 1, 2019.
2. Net sales sharply declined due to the spread of COVID-19 across the world, especially in Europe.
3. Customer demand was sluggish throughout the year due to market slump in India and China and tightening of environmental restrictions especially in Europe.

The items 2 and 3 are the main factors of the difference between the forecast announced on November 6, 2019 and the actual results.

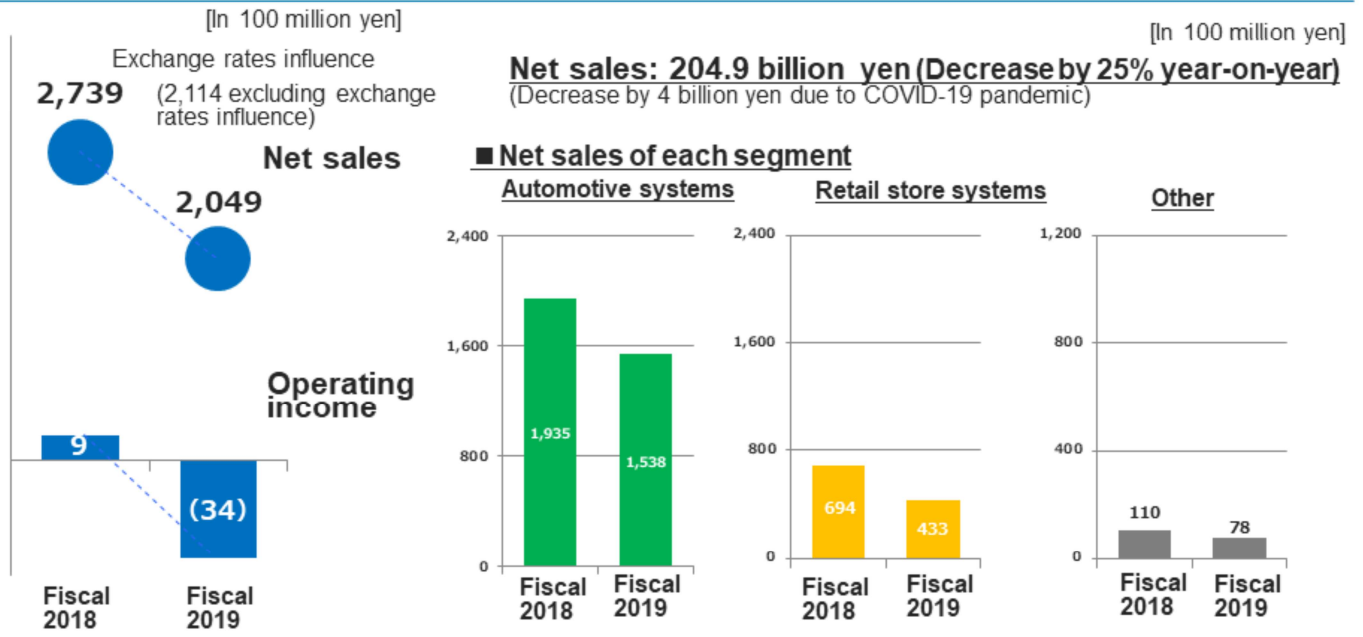
We posted operating loss due mainly to the sales decline mentioned earlier.

Ordinary income was adversely affected by the influence of exchange loss and equity method loss in addition to the operating loss mentioned above.

Although we had posted 13.4 billion yen as extraordinary loss to carry out the structural reform including the voluntary retirement program and the write-off of fixed assets along with the global production system reorganization, we finally reported net income attributable to owners of parent of 2.3 billion yen as a result of sale of the shares relating to the retail store systems business and the auto sales business as well as the revitalization of real estate.

segmental breakdown of net sales

2020/7/1



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The segmental breakdown of net sales is as follows.

Net sales from automotive systems business were 153.8 billion yen, down by 39.7 billion yen from the previous fiscal year. Net sales from the retail systems business, which only includes the sales amount in the 1st and 2nd quarters, were 43.3 billion yen, down by 26.6 billion yen from the previous fiscal year.

Net sales from other businesses were 7.8 billion yen, down by 3.2 billion yen from the previous fiscal year. The major causes of sales decline were downsizing of the living and environmental systems business as part of the business portfolio restructuring, and the deconsolidation of the auto sales business as a result of the stock transfer implemented on February 1, 2020.

Sales by region from the automotive systems business segment

2020/7/1

< Unit sales of compressor > [In 100 million yen]

16.2 million units
14.24 million units
(Decrease by 12%
year-on-year)

1,935

1,538 **Net sales**



Operating income

Fiscal 2018

Fiscal 2019

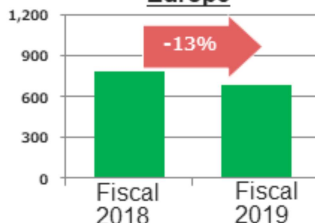
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(53)

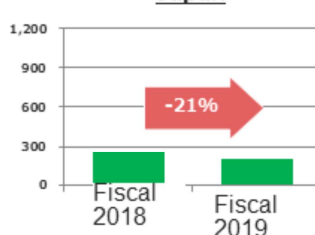
Net sales: 153.8 billion yen [In 100 million yen]
(Decrease by 21% year-on-year)
(Decrease by 4 billion yen due to COVID-19 pandemic)

■ **Net sales of each region**

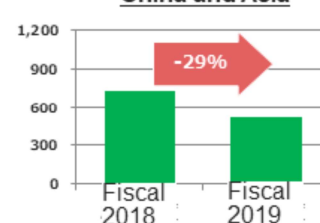
Europe



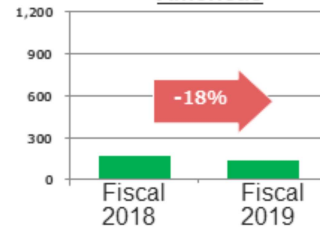
Japan



China and Asia



Americas



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The details about the business status of the automotive systems business.

The net sales were 153.8 billion yen, down by 39.7 billion yen from the previous fiscal year, or down by 33.5 billion yen excluding exchange rates influence.

In Europe, our largest market, our sales of electric compressors got a boost from tightening of fuel consumption regulations and emission control regulations, but the market as a whole was relatively sluggish. In addition, our customers were forced to suspend their operation in March due to the pandemic of COVID-19. Thus the net sales from this region went below previous year.

Net sales from China and Asia region declined because of the market slump in China and India especially in the 1st half and the plant shut-down at the Indian, Malaysian, and Philippine factories in March.

Net sales in Japan declined due mainly to decrease in product shipment to China. One of the causes of decrease in shipment was Chinese market slump especially in the 1st half, and the other was demand decline due to COVID-19 pandemic.

Net sales from the American market declined because we couldn't cancel out the negative impacts of sales decline due to shut-down at the customers' factories.

The negative impact of COVID-19 pandemic didn't come to the surface in the fiscal 2019 financial results of Chinese subsidiaries and affiliates because their business year ends in December.

The unit sales of compressors decreased to 14.24 million units, down by 12% year-on-year.

The operating loss was 5.3 billion yen, decrease by 5.9 billion yen from the previous year.

Operating income (Year-on-year comparison)

2020/7/1

	2018	2019	Difference
Net sales	2,739	2,049	-690
Operating income	9	(34)	-43

[In 100 million yen]



	2018 full year	RS influence	Cost reduction	SGA	Price reduction	Sales & sales mix	Additional Structural reform		Exchange rates	Impact of COVID-19	2019 full year
Automotive	6		39	5	-41	-59	39		-18	-24	(53)
Retail store	8	15									23
Other	(4)	-1		1		1					(4)
Total	9	14	39	6	-41	-58	39		-18	-24	(34)

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We recorded an operating loss of 3.4 billion yen, down by 4.3 billion yen from the previous fiscal year.

Operating income from the retail store systems business increased by 1.4 billion yen year-on-year. We advanced the cost reduction project and the structural reform to reduce expenses, but failed to absorb the impacts of all the negative factors, such as sales decline due to deterioration of market growth across the world and the global pandemic of COVID-19, failure in achieving cost reduction objectives due to decline in sales, and the annual price reduction.

The appreciation of yen against euro, the currency of Europa where is the largest market for Sanden, from 128 yen/euro as the average rate in Fiscal 2018 to 121 yen/euro in Fiscal 2019 was the cause of decrease in income of 1.8 billion yen.

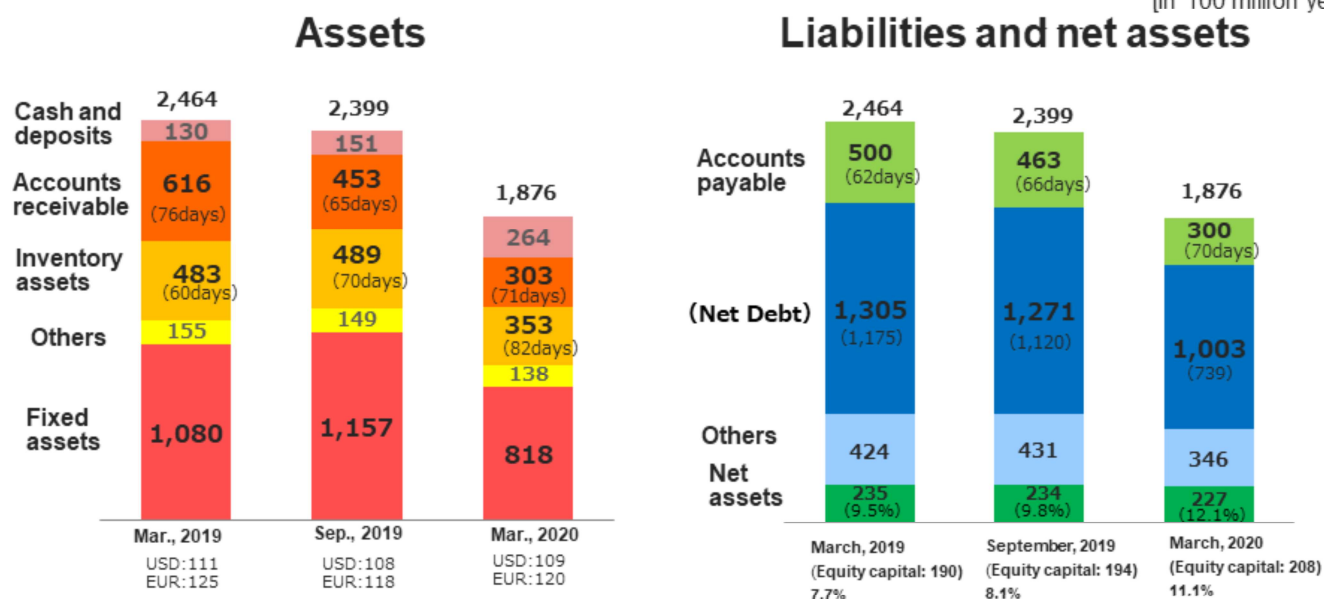
COVID-19 pandemic caused suspension or delay in business negotiation as well as sales decline.

Positioning further profitability improvement as one of the important management issues, we are promoting the measures of the medium-term management plan.

Consolidated balance sheet

2020/7/1

[In 100 million yen]



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Consolidated balance sheet as of March 31, 2020.

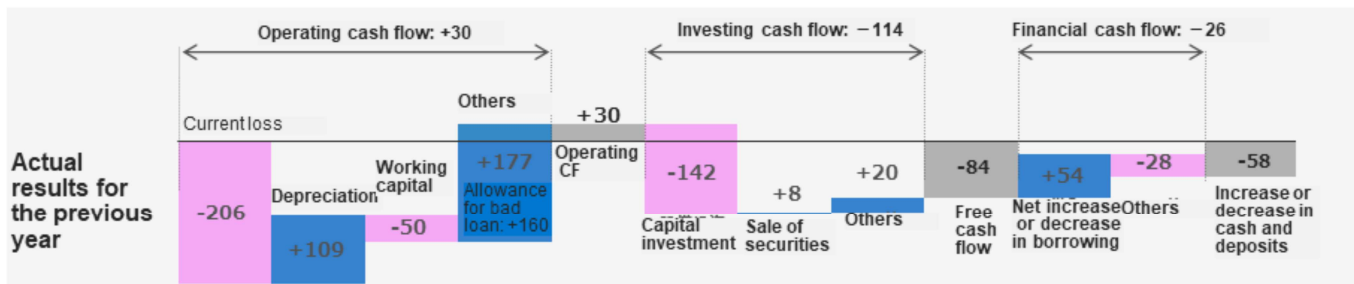
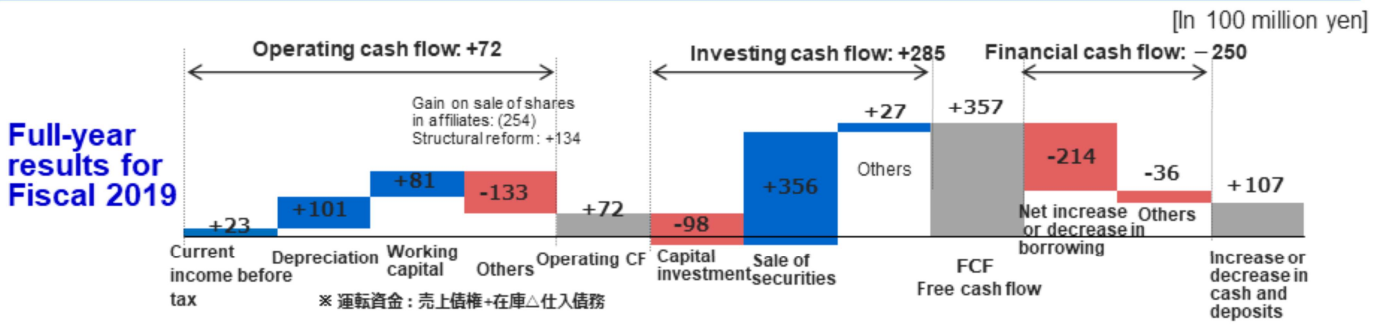
The amount of total assets decreased to 187.6 billion yen, down by 58.8 billion yen year-on-year, mainly because of the reduction in liabilities, inventory assets, shares in subsidiary companies with transfer of the retail systems business, and the impairment loss on fixed assets with restructuring of global production system.

The amount of loans payable decreased by 30.2 billion yen to 100.3 billion yen, and the amount of net debt decreased by 43.6 billion yen to 73.9 billion yen after appropriating part of funds acquired through sale of the retail store systems business.

Net assets decreased by 800 million yen to 22.7 billion yen, but the equity capital increased by 1.8 billion yen to 20.8 billion yen, so the equity capital ratio increased from 7.7% to 11.2% compared to the end of the previous fiscal year.

Full-year consolidated cash flow

2020/7/1



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Cash flow status

The ending balances of cash and cash equivalents were 23.7 billion yen, increase by 10.7 billion yen from the end of previous fiscal year. Net cash used in operating activities was 7.2 billion yen, increase by 4.2 billion yen from the previous year due mainly to improvement in working capital. Net cash provided by investing activities was 28.5 billion yen, decrease in expenditures by 39.9 billion yen from the previous year. This is primarily attributable to the proceeds of 35.6 billion yen from the sales of relating company's shares.

Thus free cash flow was 35.7 billion yen, increase by 44.1 billion yen from the previous year. Net cash outflow from financing activities was 25.0 billion yen, decrease in revenue by 22.4 billion yen from the previous year. This is primarily attributable to expenditures of 21.4 billion yen for repayment of long-term debt and redemption of bonds.

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2. Mid-term management plan
(SCOPE 2023)

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Review on progress of mid-term management plan (SCOPE 2023)

2020/7/1

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

Key strategies (5 reform plans)

- 1 Comprehensive reorganization of production system
- 2 Enhancement of basic earning power
- 3 Growth by actively promoting ‘collaborative creation’
- 4 Cash flow generation through reform in assets structure
- 5 Reform in system for implementation

Review of the new mid-term management plan

Reviewed mid-term management plan according to the market change and concentrated resources to automotive equipment business.

Now executing the business on the basis of the 5 reform plans in SCOPE2023.

The progress of ‘5 reform plans’ of the mid-term management plan

The automotive industry has entered the period of once-in-a-century upheaval, and the industry structure is drastically changing.

We need to accelerate our efforts to expand our EV business domain in which new growth of our automotive systems business is expected.

We also need to strengthen our competitiveness by investing our resources and acquiring technical insights of EV because ‘speed’ is a key factor to accomplish growth.

At the moment, we are reviewing the medium-term management plan, focusing on the changes in the market environment and the concentration of resources in the automotive equipment business, centering on the priority strategies set in SCOPE 2023.

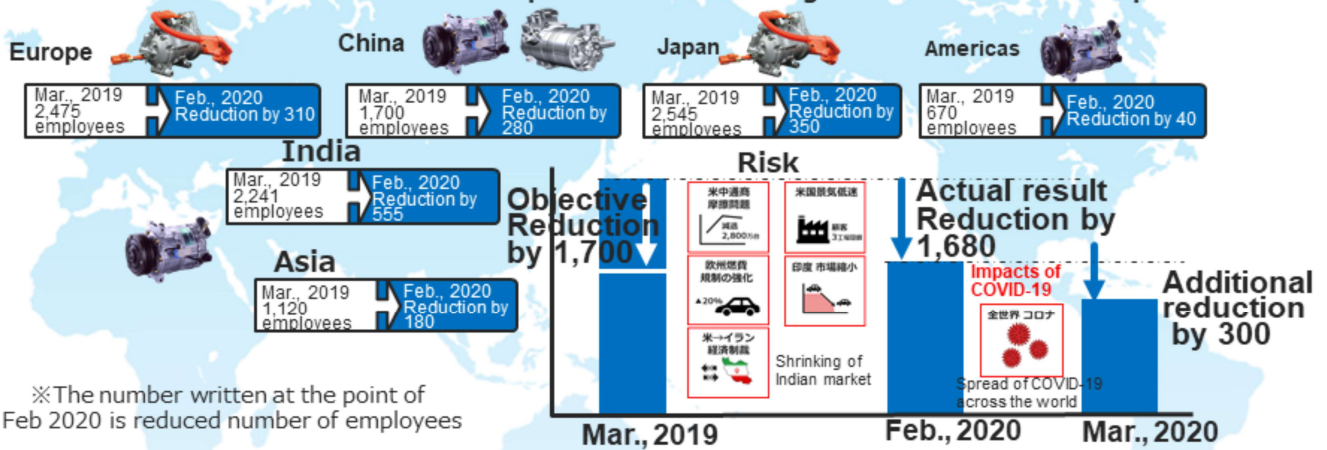
Mid-term management plan (SCOPE 2023) - 5 reform plans

2020/7/1

1 Comprehensive reorganization of production system

Reorganization of global production system to respond to demand fluctuation is on schedule

Continuing reorganization of global production system for optimization monitoring the new corona virus impact.



※The number written at the point of Feb 2020 is reduced number of employees

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Comprehensive reorganization of production system

The comprehensive reorganization consists of the rearrangement of global production capacity according to product lifecycle stage and establishment of optimal workforce configuration to meet mid-term demand fluctuation.

In Japan, we implemented voluntary retirement scheme as a part of the activities for restructuring personnel structure to concentrate on the development of advanced products.

In Europe and US, we carried out the 1st step of personnel structure restructuring to be ready for future production transfer.

We rearranged the production capacity for air conditioning systems in China and Asian countries, and optimized the personnel structure to meet circumstances in the respective countries. Especially in India and China, we promoted the transformation of our production system to the one suitable for stagnation of growth.

In addition to the restructuring mentioned above, we carried out additional one in Fiscal 2019 to meet the situation brought on by COVID-19 pandemic, and achieved reduction in workforce of about 2,000 people in total.

Mid-term management plan (SCOPE 2023)

- 5 reform plans

2020/7/1

2 Enhancement of basic earning power

Start of production of new environmentally compatible products that meet requirements of heat management

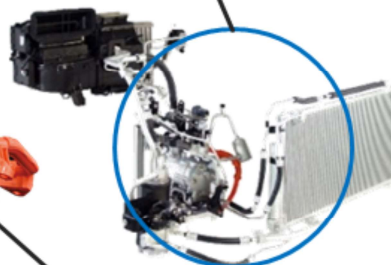
Automated production line for new electric compressor



Automation ratio: 75%
Decrease in labor to 1/3 compared to conventional production line

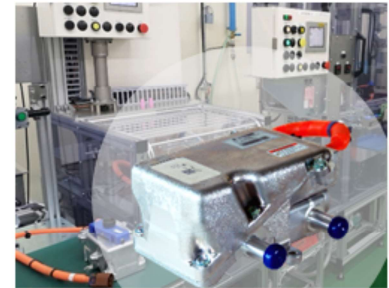
Electric compressor

Module production for HP



Procurement structure reform for electronic components, motors, etc.

Realization of ultra-small coolant heater



Coolant heater

Start of production in October, 2020
➤ Acquisition of new business

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Enhancement of basic earning power

Sanden is promoting various activities to develop new technologies at its global development bases and major manufacturing factories. The global mother factory located in Gunma, Japan, is developing the state-of-the-art technologies. It has also started the production of new environmentally compatible products.

We have an assortment of the environmentally compatible products in the heat management area, such as electric compressors, coolant heaters, and heat pump systems.

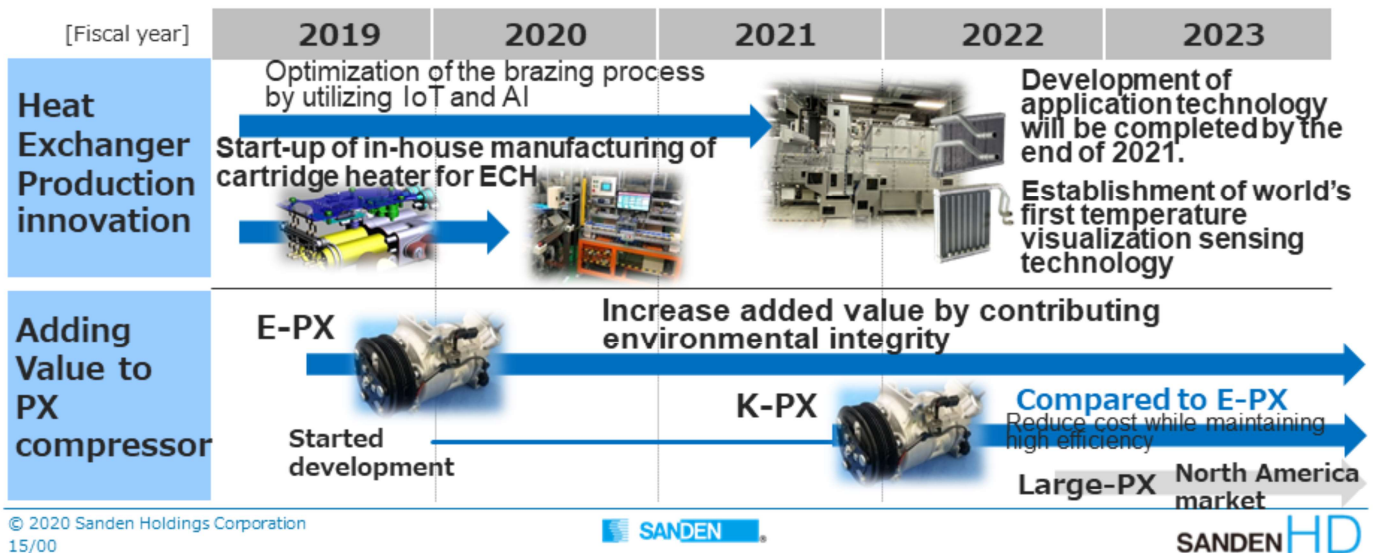
We are successful in reducing the number of operators for the electric compressor production line to one-third compared to the conventional line by introducing new technologies for sensing, image processing, and automation. The manufacturing operation on this line was started in October, 2019. We are going to enhance our earning power further more by innovating our technologies.

Mid-term management plan (SCOPE 2023) - 5 reform plans

2020/7/1

2 Enhancement of basic earning power

Innovation in production engineering technologies at the mother factory



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Innovation in production engineering technologies at the mother factory

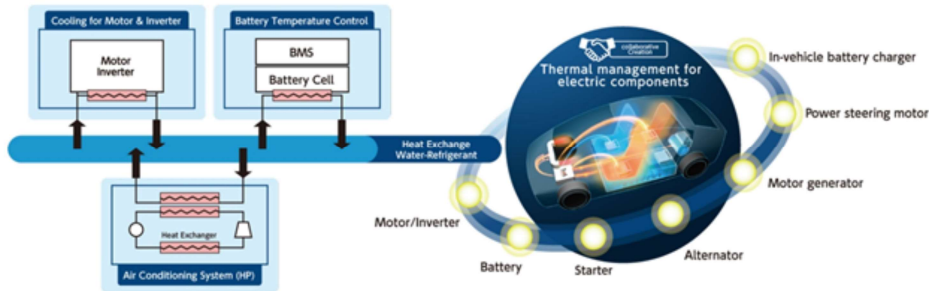
In order to innovate QCD competitiveness of our heat exchangers, we are promoting more efficient use of AI and IoT to optimize and evolve the brazing process, in which the way to control the production parameters will be shifted from lot-by-lot style to individual control style by which the temperature of each product can be visualized and controlled. There are prospects that we will be able to start applying those new technologies to mass-production by the end of 2021.

We will start in-house production of the cartridge heater, a major component of coolant heater, in July, 2020 so as to increase development speed and improve profitability.

We worked on improvement in profitability of PX compressors, our flagship product, and clutches, and strived for establishment of global optimal procurement for material, so that we launched E-PX, of which efficiency, robustness, and cost competitiveness are higher than those of current PX, in the 2nd half of Fiscal 2019. In addition, we will launch K-PX in the 2nd half of Fiscal 2021. K-PX will achieve the cost lower than that of E-PX while maintaining the same high efficiency as E-PX,

3 Growth by actively promoting 'collaborative creation'

Concentration on the field of 'Integrated heat management system' for EV



Thermal Management System
Development Project

< Core technologies >

- Exhaust heat recovery to save energy.
- Optimal cooling/heating to improve battery performance
- High-efficiency heat pump and lightweight small coolant heater
- Provision of comfort and optimal heat control for entire heating/cooling system including air conditioning system

We believe our mission is to 'create comfortable spaces that enrich human lives' taking account of the way the society should be in 2030. In order to achieve our mission, we will achieve further growth through aggressive promotion of 'collaborative creation'.

The integrated heat management especially for EV is the field where we can make the largest contribution. Focusing on the development of automotive air conditioning technologies, Sanden will act as a producer of integrated heat management technologies and systems that substantially affect cruising distance of EV, and attain the following goals.

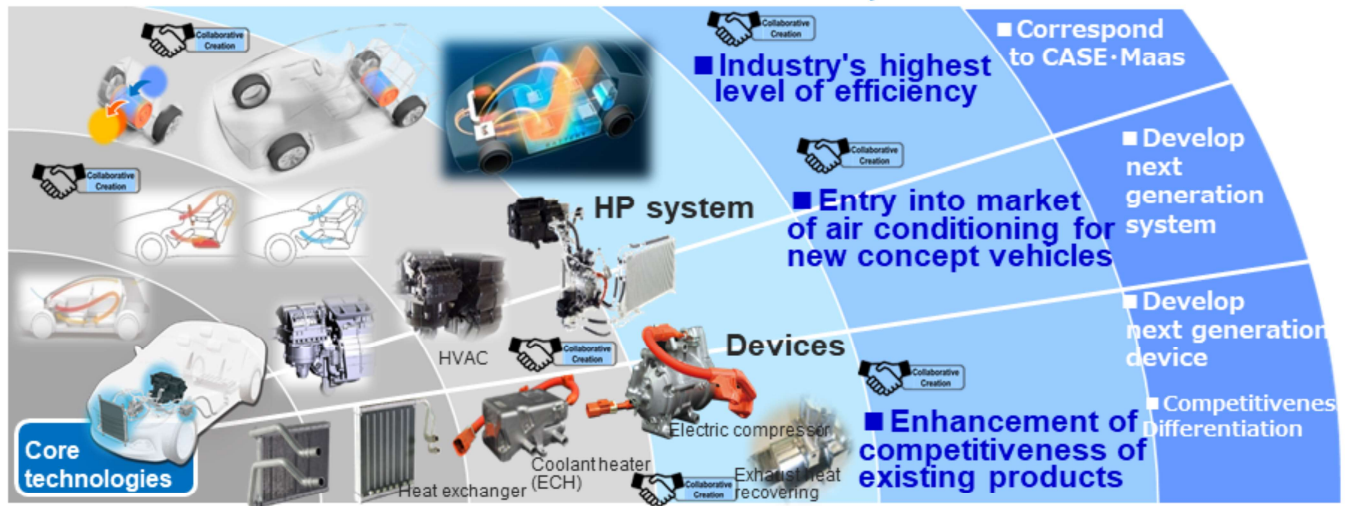
- (1)Energy-saving by recovering exhaust heat from motor and inverter.
- (2)Improvement in battery performance by optimizing cooling and heating.
- (3)Development of high-efficiency heat pumps and lightweight small coolant heaters.
- (4)Provision of comfort through optimal heat management for air conditioning system and other cooling and heating equipment.

Mid-term management plan (SCOPE 2023) - 5 reform plans

2020/7/1

3 Growth by actively promoting 'collaborative creation'

Total heat management system area [FY19 result] ▶ Collaborating for future



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Roadmap of growth by aggressively promoting collaborative creation.

Sanden's growth is supported by 3 technical fields; 'devices' as typified by compressors, heat exchangers, etc., air conditioning systems and heat pump systems that are consisted of devices, and total heat management systems which control the systems mentioned earlier in a more comprehensive and efficient manner.

Intending to enter the market of air conditioning for new concept vehicles, we are also advancing the technical development in the system field.

In the field of integrated heat management, to be adaptable to CASE, Maas, etc., we are promoting the collaborative creation with Nidec and others.

We will contribute to the society through development of environment-friendly technologies, i.e., extension of cruise distance of EV by optimally controlling all the heat management parameters.

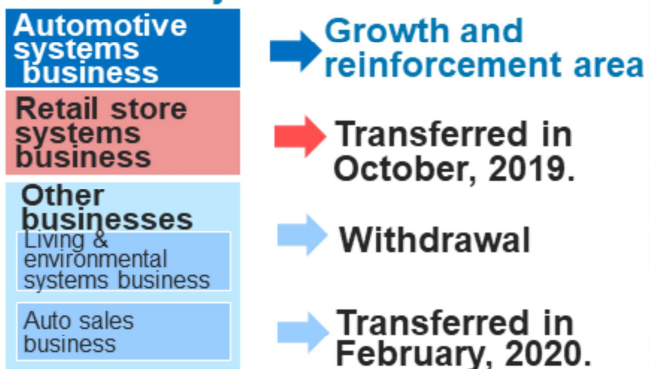
Sanden is aiming to be a company that can provide solutions for integrated heat management.

Mid-term management plan (SCOPE 2023) - 5 reform plans

2020/7/1

4 Cash flow generation through reform in assets structure

Concentration of resources on the automotive systems business



Selling price **35.6 billion yen**

Real estate revitalization

Japan

Revitalization was completed in Gunma area.

[Sale, change in use, reclamation, etc. of lands]
→ Redevelopment for Gunma area

Overseas

Revitalization along with reorganization of global locations

Selling price **5.4 billion yen**

Cash flow generation through reform in assets structure

In order to accelerate growth in the business area of integrated heat management system for EV, it is necessary for us to invest our management resources and acquire necessary insights so that we can strengthen our competitiveness.

Looking at the actual situation of management resources, however, Sanden group had difficulty allocating sufficient resources to all the business areas, including automotive systems business, retail store systems, and auto sales business. Therefore, Sanden decided to transfer its retail store systems business and auto sales business to the transferees who were judged to be capable of further accelerating future growth of those businesses. The proceeds from the sales was 35.6 billion yen.

Sanden is achieving steady growth by investing the funds earned from this business transfer and all other resources to the automotive systems business.

In addition, regarding liquidation of real estate, we have examined it for the purpose of maximizing value, and along with strategies such as reviewing the production system, we have promoted liquidation of real estate in Japan and overseas, and have earned 5.4 billion yen in sales income.

Mid-term management plan (SCOPE 2023) - 5 reform plans

2020/7/1

5 Reform in system for implementation

[Fiscal year]	2015	2016	2017	2018	2019
Organizational reform	Holding company system with 7 business companies	Reorganization of manufacturing subsidiaries	To 5 business companies Withdrawal from LS and EP businesses 20 HQ's & 3 plants Factory consolidation in Mexico	8 HQ's Consolidation of bases in China Consolidation of bases in Malaysia	To 4 business companies Transfer of RS 6 HQ's 7 HQ's (Reinforcement) Technical center in Vietnam Relocation of main office in Europe Functional integration Company-wide management administration Company-wide technical management Launch of advanced technology development projects TMS PROJECT
Improvement in corporate governance	Establishment of the corporate governance code			Assessment of board's effectiveness Executive Nomination and Compensation Committee Number of outside directors: 2 or more	Abolition of the advisor system Discontinuance (Abolition) of takeover defense measures Proposal workflow
RPA to increase efficiency of administrative work	Shared service about Management and operation (Established SDBE)		RPA introduction	Administration: Various expenses transfer etc. Human resources: Salary calculation etc. Operation: Customer order data etc.	3 company emerged 56 tasks to be handled by RPA Further promotion of RPA

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Reform in system for implementation

Sanden is promoting the organizational reform to respond to rapidly changing market in a timely manner.

We are continually advancing such reform for our headquarters functions after the transfer of retail systems business in 2019.

The company-wide consolidation of management administration functions and that of technical management functions are good examples of our effective organizational reform.

In the aspect of governance, we completed several reform items, such as establishment of the Executive Nomination and Compensation Committee to ensure transparency and effectiveness of corporate management, establishment of the corporate governance code, increase in the ratio of outside directors, and abolition of the advisor system. Following the reform items mentioned above, Sanden has decided to abolish the takeover defense measures.

The reform of the mechanism for execution has penetrated into the operation area, and Sanden Business Associates Co., Ltd., a shared service company that is entrusted with the tasks of general affairs, personnel, logistics, and facility management of the Group, aims to improve operational efficiency. We are promoting the utilization of RPA. By delegating human tasks up to now to robots, which are digital laborers, it is possible to execute specified procedures regardless of time without making a mistake, which greatly contributes to improving work efficiency.

Mid-term management plan (SCOPE 2023) - 5 reform plans

2020/7/1

5 Reform in system for implementation

Contribute to SDGs through Business

Sanden Forest which is owned by Sanden holdings corporation was nominated as

Most high rank: Green Legacy

by SEGES (Social & Environmental Green Evaluation System) which is organized by Organization for landscape and Urban Green Infrastructure.



■ Evaluation overview

Philosophy of Sanden forest very connects with ESG Management.

This also connects to 「SATOYAMA INITIATIVE」 released to the world



Working style Reform

Sanden group are working to create an environment that assures employees health and safety for them to be able to achieve a healthy lifestyle according to corporate philosophy article of safety and Health.



Our vision is "To continue to open up the era for the realization of a prosperous society in which environment and comfort are in harmony, We will be a company that is trusted by all."

As contribution of SDGs through business,

- Solving social issues and improving customer satisfaction through technological development
 - Activate business activities by implementing work style reforms
- Is listed.

Especially for technological development, we will contribute to society by supplying an integrated thermal management system. Also, in work style reform, the corporate philosophy of realizing employee comfort and affluence, and ensuring safety and health Efforts to secure an environment that is easy to work in consideration of health have been evaluated and We are certified.

Since its completion in 2002, Sanden Forest has promoted coexistence of industry and the environment without any contradiction, and acquired SEGES Stage 3 in 2008. Since then, we have continued to promote our activities, and in 2020 we were certified as the highest rated "Green Hall of Fame". The Sanden Forest philosophy has been evaluated as being ESG management itself.

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1. Financial results for Fiscal 2019

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(SCOPE 2023)

3. Future plan

Impacts of COVID-19 pandemic on business in each region (Current situation)

2020/7/1

In April and May, the production locations in Europe and Asia were forced to run their operations at extremely low operating ratio. According to circumstances, however, they have restarted their operations to satisfy customer needs.



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Impacts of COVID-19 pandemic on business in each region.

We experienced intensive impact from sharp decline in automotive demand due to COVID-19 pandemic, such as production suspension, operation with 4 on 3 off schedule, etc., especially in Europe and Asia.

In order to satisfy customer demand, however, our production bases in France, India, Malaysia, and Philippine restarted their operations in the middle of May, and so did the production base in Poland in June.

Future plan - Forecast of business performance for Fiscal 2020

2020/7/1

- 
- 1** We are closely examining the impacts of COVID-19 pandemic on our business performance.
 - 2** It is difficult to reasonably determine the figures of consolidated business forecast at this moment.
 - 3** The forecast of business performance will be announced as soon as the figures can be determined.

Forecast of business performance for Fiscal 2020

We are still having a long-lasting and serious impact of COVID-19 pandemic on the global economy.

It is quite difficult to reasonably determine a full-year forecast of consolidated business performance for Fiscal 2020 at this moment because of extreme difficulty forecasting market trends and changes in work environment in the world.

We will disclose the forecast of consolidated business performance as soon as it becomes possible to reasonably make predictions.



Please refer to the press release disclosed timely on June 30.