

Q&A Summary for IR Meeting for AIS Company

Date / Time: December 9, 2014 14:30~15:30
Location: BELLESALLE SHIODOME 1F HALL
Presenter: Yoshio Ito, Automotive & Industrial Systems (AIS) Company

■Q1

Q: Where is your position in ECU industry? How is your current competitiveness and how will it be 3 years later?

A: There are two ECU suppliers: electronics manufacturers and auto electric component manufacturers. We have produced engine control unit for the past 30 years and increased sales for electrification and hybridization. Our market share is getting high among electronics manufacturers, since we capture demand increasing in ADAS and safe driving business areas. It may not be easy to catch up with others just in 3 years, but we do our best.

Q: Do you think it is enough to reduce 30% cost of battery for Tesla's next-gen cars at Gigafactory?

A: The cost of battery is the highest among all other components in EV. That is why Tesla is trying to reduce 30% cost of battery, calculated from their own cost structure.

Q: When do you think your semiconductor business will return to black?

A: We do not think we get back to black in this year, although the profitability will improve due to huge restructuring. We will develop new applications for power semiconductors where we have an advantage of compound technology, LED, image processing and sensors for automotive and industrial applications. It will take some time to develop new applications, but we try our best to get back to black.

■Q2

Q: How much are your sales for EVs in FY19 out of 2 trillion yen automotive sales target?

A: We expect 680 billion yen sales in FY19 comparing with 330 billion yen in FY14 in environment business area, and 450 billion yen sales of battery in FY19 comparing with less than 200 billion yen in FY14, which includes sales for other automakers than Tesla. We have seen many inquiries from automakers since last year and included these figures in our estimates.

Q: What are industry scales in each business area of environment, comfort and safety? Which one is your driver, where you expect grow more than industry, besides battery business?

A: The annual growth rate is 3-5% in comfort business area and 15-20% in both environment and safety. In environment, we see sales increase in chargers for EVs and fuel cell vehicles, where we maintain the highest market share. Our customers are not only Japanese automakers but also European automakers. In this area, charger business drives our growth in addition to battery

business. In safety, we have increasing inquiries for rear view assistance during driving. Now we start to develop the market of assistance for front view during high-speed driving, with a business alliance with others focusing on sensor devices including sonars and camera, and ECU where we would like to offer as a package business.

Q: Yen is now 20% more depreciated comparing with the time you decided to work with Tesla at Gigafactory. Do you think it is still better for you to produce in the US rather than Japan even if yen goes down to 140 yen /dollar?

A: Foreign exchange affects us in both positive and negative ways. It is better to transport equipment from Japan and China, and worse to pay salaries overseas; therefore we have to keep them well-balanced. If they achieve their production plan in 2019 and 2020, the ratio of production between Japan and the US will be 1:2 comparing with 1:0 in this year. We will adjust this ratio considering external factors including foreign exchange. The most advantageous things in Gigafactory are production efficiency where we can do everything from procuring materials, producing cells and modules, and huge purchasing power from mass production.

Q: Do you think you have a risk when yen goes down more than 120 yen/dollar and material suppliers are not able to do business with you?

A: No. We have talked with material suppliers to be economically efficient preparing for such a situation.

■Q3

Q: You mentioned your target of 2 trillion yen sales in FY19 is promising. Does this number only include your organic growth? That means, if you have new projects, will you be able to achieve more than 2 trillion yen?

A: We expect almost 2 trillion yen sales only with organic growth. We have received large slot orders and would like to make this promising in a year. If we add new projects such as business with FICOSA, it will be more than 2 trillion yen.

Q: Do you think 5% OPM is also promising?

A: Of course. It is supposed to be more than 5%, since automotive business is a key driver in the whole Panasonic.

Q: What is your current estimates on CAPEX and R&D? Is there any change from 120 billion yen of CAPEX and 300 billion yen of R&D in FY14-16? How have you progressed so far?

A: Since we have increased R&D in automotive business with receiving more orders than expected, we spent more in FY15 and FY16. We also expect CAPEX will increase phase by phase from FY16 due to Gigafactory project.

■Q4

Q: Which area do you expect grow the most in sales and profitability?

A: In comfort business area, we have received orders towards FY18 and FY19, such as HUD from the European automaker, electronic mirrors from the Japanese automaker where we also try to expand business in Europe. The most growing areas are Europe and the US. If you look at automakers, Europeans, Americans and Japanese will grow. In safety, we have progressed step by step. We started business with Japanese automakers in ADAS and will develop into Europeans and Americans. Sales in FY19 are mostly from Japanese automakers. In environment, we focus on the US because of Gigafactory project. We also expand charger business globally to Europeans, since we have already received orders from them. We will of course maintain high profitability. Since profitability varies depending on product, customers and other factors, it may not be able to generalize the number, however we know this is the business which drives the whole Panasonic.

Q: Do you offer your cockpit system as a module or a package?

A: In this business, we decided to work with FICOSA since mirror business is essential, where we have to maintain drivers' view stable while driving. We provide modules to FICOSA and offer products to automakers. We will offer HUD both as a module and package. We maintain the highest market share in this area with car navigations and head units. Since it is imperative where to position in the cockpit market, we will aggregate our technology of visual and image processing and expect to gain high market share in 2018 and 2020.

■Q5

Q: You mentioned R&D will be more than expected in FY15 and FY16. How long do you think it will take to complete initial investment? Will it continue to FY16 or FY17?

A: We established our basic business strategy in FY12-13 due to the earthquake in Japan and flood in Thailand. That is, we did not aggressively participate projects coming in FY15-16. Meantime, we have been aggressive for the past two years to take all projects coming in FY18-20. Therefore we will spend R&D from FY15-17 1H and we expect returns from FY18. At that time, we will shift our strategy in R&D.

Q: Are you going to expand more in ADAS as a single product, or module and package?

A: We increase sales of devices in Europe and the U.S. and modules and package systems in Japan.

###