Panasonic IR Day 2016 Q&A Summary (Automotive & Industrial Systems Company)

Date and Time: May 18, 2016 (Wed) 1:00-1:45 PM
Location: Panasonic Tokyo Shiodome Building
Presenter: Yoshio Ito, President, Automotive & Industrial Systems (AIS) Company

■ Questioner 1

Q: Tesla is reported to be getting an increasing number of orders for their Model 3. Please share with us how this will impact your capital investment plan for Gigafactory and in case you make investments ahead of schedule how this will affect your profitability.

A: We are considering making investments ahead of schedule. There are many decision-making points so the two companies will advance this project while sharing mutual information. We simulate how the more-than-expected increase in orders can lead to reduction of procurement cost, etc. and earnings growth. We will operate this business as a profitable one so as to live up to expectations.

Q: What do you think of the risk factor from increasing production capacity on a short-term basis in response to a substantial increase in orders?

A: It is necessary to improve accuracy for all decision–making points, so we have intensive information sharing with our clients. For example, in the case of installing new equipment, initial quality confirmation needs to be done by the equipment manufacturer or our company, and production engineering personnel shifts are also required. In this context, we visualize a considerable number of individual issues and examine them accordingly.

Q: Regarding the instrument panel in a cockpit system, please tell us about current competition with other manufacturers and Panasonic's positioning. In addition, are you going to make this part on your own or work with existing manufacturers?

A: Regarding the integrated IVI (In-Vehicle Infotainment) system, orders have secured from major clients and development cost is on the increase. Regarding parts to be cooperatively developed with automakers, we will reutilize a common platform with different automakers. In this way, we will hold down development cost. Since our company didn't have knowledge about the instrument cluster including a speedometer, we obtained necessary technologies from outside. Advances in digitization and use of LCDs create business opportunities for our company. We promote both collaboration with other companies and development on our own. Our company has undertaken the development of an integrated IVI system which comprehensively controls the instrument cluster, head-up display, air conditioner control panel, etc. You can look forward to seeing them in the market in 2017 and 2018.

■ Questioner 2

Q: There was a media report that the price of lithium, which is one of the raw materials of automotive batteries, is rising steeply. Does this have any impact on your business?

A: We think that the increasing demand for EV bus batteries in China is affecting the prices of resources, such as lithium and nickel, and electrolytic solution. Our company secures materials proactively based on the production schedule and therefore, we are facing no significant risks at the present moment. Specifically, we promote direct procurement of raw materials, development of new procurement routes, and building of strong partnerships with suppliers. To achieve cost reduction, we will especially address reduction of material cost by changing usable materials through development of new technologies to improve/shorten forming processes of material manufacturers. We promote these efforts together with material manufacturers to reduce raw material prices.

■ Questioner 3

Q: What is the reason that the Safety area is being increased from last year in your sales goal for FY2019 of 2 trillion yen? Also, please tell us your profit vision after 2020.

A: Our sales goal for FY2019 was revised downward from 2.1 trillion yen to 2 trillion yen due almost entirely to currency movement. Also, the figures for the respective categories of Comfort and Safety have changed because we shifted some businesses, such as the electronic mirror business, from the Comfort area to the Safety area. In the automotive-related industry, the average earning ratio of a Tier 1 supplier is around 5%. As a device suplier, we will work to further increase profitability by creating devices and systems feasible only by our company. This direction remains unchanged.

Q: Please tell us about the current status of your synergy with Ficosa.

A: Synergy effects are being created. 95% of Ficosa's business is in areas which our company is not involved in. Notably, their side mirror business is the third largest share of the world. In the mirror industry, digitization is advancing and cameras can act as mirrors. In the area of driver assistance, cameras and sonars may be installed in the side mirror positions for detection of surroundings. With some automakers, we are already in proving tests and some products have been adopted. Ficosa's inner mirrors and side mirrors are highly regarded by European manufaturers. To negotiate on equal terms with European manufacturers, we are effectively utilizing Ficosa's sales channel. Further, Ficosa has the headlight washer business and is promoting adoption of a system to wash cameras on high-end car models. Ficosa also makes telematics control units. For IVI systems, connectivity is important and Ficosa makes antennas for them. We are thinking about interlocking an integrated antenna unit with our company's infotainment system to be connected externally. This is already used to deter theft in India and Asia. Thus, we are effectively utilizing Ficosa's assets, including communication technologies, antenna technologies, and intellectual properties. Currently, the development cost of our automotive business on the sales amount is a double-digit percent. We hope to hold this down to a single-digit percent by 2020.

■ Questioner 4

Q: About the supply chain for cylindrical-type lithium-ion batteries, what is the lead time and proper inventory level?

A: A cylindrical-type lithium-ion battery takes about one month from manufacturing to shipment. Proper inventory level is not constant, but around a 60-day inventory is normal, including safety inventory secured from the BCP perspective. It varies by product and market. In the ICT field, there are wide fluctuations and inventory can suddenly exceed the proper level. In addition to improving the forecast accuracy, by maintaining a close relationship with customers, we will improve the inventory status.

Q: Please explain the per-unit price difference between a cylindrical-type lithium-ion battery and prismatic lithium-ion battery and their future competitiveness.

A: We have developed excellent cylindrical-type lithium-ion battery technology in the ICT and consumer products fields, especially higher-capacity battery technology. Accordingly, we have incerased competitiveness, in terms of the price per unit capacity, in other words, $/kW. Since prismatic lithium-ion batteries are developed primarily as in-car batteries, safety is emphasized more than price competitiveness. Therefore, we cannot make a simple comparison between a cylindrical-type lithium-ion battery and prismatic lithium-ion battery. In terms of $/kW, a cylindrical-type lithium-ion battery is more competitive than a prismatic lithium-ion battery. Meanwhile, automakers never load individual battery cells in a car. They always make a battery pack consisting of multiple battery cells. Therefore, for a prismatic lithium-ion battery, total competitiveness is the point of focus. In the medium- and long-term, our company is considering business expansion in the automotive battery area with both cylindrical-type lithium-ion batteries and prismatic lithium-ion batteries. We will develop improved prismatic lithium-ion batteries by applying our higher-capacity technology developed in the cylindrical-type lithium-ion battery business. At the same time, we will ensure their safety required for an automotive battery. Thus, we will sharpen our competitive edge. We are striving so as to make the competitiveness of prismatic lithium-ion batteries similar to that of cylindrical-type lithium-ion batteries.

■ Questioner 5

Q: About the amount of increase in fixed cost shown on Slide 6, what other items are included in the amount other than "upfront investment" cost?

A: One of the factors behind the increase is depreciation of equipment invested in FY2016. Additionally, there are others such as development cost and labor cost concerning development staff.

Q: Is fixed cost for FY2018 going to remain unchanged year-on-year? What impact will it have on profits after FY2019?

A: We forecast that development cost for FY2018 will not change much from that for FY2017. It will be necessary to make continuing investment in platform development, including upgrading. This will result in increases in various fringe costs, such as application cost. Since we will continuously invest in the automotive-related and battery-related businesses as our key businesses, development cost will not decrease until FY2019.

■ Questioner 6

Q: How are you dealing with businesses requiring earnings recovery, for example, semiconductor business, LCD panel business, and the termination of optical disk business?

A: Termination of the optical disk business means we will withdraw from the business handling optical disk drives for PCs. As for semiconductors, we have undertaken a joint enterprise involving three pre-process factories in the Hokuriku region with TowerJazz. We sold our overseas post-process factories to UTAC. Things have been carried out steadily according to the original earnings recovery plan. As for LCD panels, prices slumped last fiscal year due to excess supply of TV panels and our company was affected deeply by it. For this term, as well as fulfilling our contractual supply responsibilities, as a major direction to take we will work to rebuild business by specializing in industrial and application-specific LCD panels. While narrowing down of production capacity, we will continue to specialize in business areas where features of our company's LCD panels can be fully used.

Q: About the FA business, your plan for FY2017 communicates your strong confidence. What is behind that? In addition, do you think you can maintain high profitability?

A: We've been receiving various inquiries about production rationalization, which is the reason for our strong confidence. We are finding new clients in business areas completely different from conventional areas of chip mounters and welding machines. We hope to keep operating this business as one of our highly-profitable stable businesses.