

TAIYO YUDEN CO., LTD.

Earnings Release Conference for the 1st Quarter of the Fiscal Year Ending

March 31, 2023, Summary of Q&A

(Held August 3, 2022)

Financial Results

- Q1. What were the trends for multilayer ceramic capacitor (MLCC) orders in the first quarter, and what was the capacity utilization?
- A1. MLCC orders decreased from the previous month in each of April, May, and June, due partly to the impact of lockdowns implemented in some regions as COVID-19 countermeasures. MLCC capacity utilization was 85-90% in the first quarter.
- Q2. What factors contributed to increase or decrease in operating profit in the first quarter compared with the initial forecast?
- A2. The 0.4 billion yen decrease in fixed costs, which had been expected to increase 1.5 billion yen in the first quarter under the initial forecast, contributed an increase of 1.9 billion yen in operating profit. The depreciation in the yen of 4.45 yen compared with the forecast also contributed an increase of 1.0 billion yen in operating profit. In addition, although net sales exceeded the initial forecast, the effect of capacity utilization was a factor for decrease in profit as inventory, which we had planned to build up by 10.0 billion yen, only increased by 8.6 billion yen.
- Q3. Why was the effect of capacity utilization a factor contributing a decrease of 5.1 billion yen in operating profit even though inventory as of June 30 increased 8.6 billion yen from March 31, 2022? What is the outlook for the effect of capacity utilization in the second quarter?
- A3. The effect from the decrease in sales volume due to lockdowns exceeded the effect of increased production due to inventory buildup. Therefore, it was a factor for decrease in operating profit. We forecast that sales in the second quarter will increase from the previous quarter, and expect the effect of capacity utilization will be a factor for increase in operating profit.

- Q4. Why were you able to reduce fixed costs compared with the initial forecast?
- A4. Although capacity utilization was slightly lower than the forecast, it had the effect of reducing fixed costs.
- Q5. Does the 8.6 billion yen increase in inventory in the first quarter include the impact of exchange rates?
- A5. The impact of exchange rates is not included because we assume the same exchange rate for March 31 of the previous fiscal year and June 30 to explain the amount of changes in inventory.

Future Outlook

- Q6. What is the outlook for the second quarter?
- A6. We expect net sales in the second quarter will increase by 10-14% from the first quarter, which was impacted by lockdowns. Despite smartphone production adjustments in China, we anticipate an increase in sales for all applications.
- We expect operating profit will increase from the first quarter in the second quarter despite a 1.5 billion yen increase in fixed costs, including depreciation, due to sales growth and the impact of the weaker yen. Our assumption is that inventory as of September 30 will be at the same level as of June 30.
- Q7. Judging from the guidance you just announced for second quarter net sales, is it likely that the financial results for the first half will underperform the initial forecast?
- A7. Although we believe that customers will still maintain current inventory levels from a BCP perspective, the guidance for second quarter net sales factors in the risk that non-automotive customers will make inventory adjustments, mainly in smartphones in China and information equipment, such as PCs. We also included such risks as a fall in demand in conjunction with the decline in equipment production volumes. Therefore, we have assumed net sales will underperform the initial forecast for the first half to some extent. It is possible that operating profit will also underperform the initial forecast for the first half although this depends on the level of net sales.
- Q8. What direction do you expect for financial results in the third quarter?
- A8. Financial results in the third quarter could be positive compared with the second quarter when we factored in risks.

- Q9. What percentage of integrated module & device sales will communication devices account for in the second quarter, and what is the outlook for communication devices from the second quarter onward?
- A9. We expect communication devices to account for 55-60% of integrated module & device sales in the second quarter. Going forward, we will expand sales to module manufacturers through new products TLSAW™ and HPDP. We will also increase the range of products for the automobile market, leveraging our high-reliability package technology.
- Q10. What is the assumption for MLCC capacity utilization from the second quarter onward?
- A10. In the second quarter, we expect capacity utilization will be around 85%. We have not revised the financial results forecast for the second half, but we expect capacity utilization to be higher in the third quarter than in the second quarter.
- Q11. You said you expect net sales in the second quarter to increase by 10-14% from the first quarter. How much of this increase is from the impact of exchange rates?
- A11. We have estimated that a 1 yen fluctuation in the US\$ exchange rate creates an impact of 2.4 billion yen a year on net sales. Calculated based on the difference between the average exchange rate of US\$1:124.45 yen during the first quarter and the assumption of US\$1:134 yen during the second quarter, the 10-14% increase includes an increase in sales of approximately 5.7 billion yen due to the depreciation of the yen.
- Q12. What are your future plans for inventory?
- A12. There are no changes to our inventory plans for the full year, and we expect to increase inventory as of March 31, 2023 by around 9.0 billion yen from March 31, 2022.
- Q13. I believe that the number of MLCCs used in automobiles and industrial equipment is still increasing, but the pace of increase in the number used in smartphones seems to have slowed. Are there any changes to your view of MLCC demand over the medium- to long-term? Will you continue your plans to increase MLCC production capacity by 10-15% a year?
- A13. There are no changes to our view on MLCC demand over the medium- to long-term. The number of MLCCs used in high-end smartphones increased due to the introduction of 5G and advanced functionality. There are no changes to our view that the number of MLCCs will increase further in the future, including products for use in smartphones in China and Korea. Our view that the number of MLCCs for use in automobiles will also increase due to the shift to electric vehicles is unchanged. Therefore, we will continue to increase capacity by 10-15% a year without changing our investment plans.

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