

TAIYO YUDEN CO., LTD.
Earnings Release Conference for the 2nd Quarter of the Fiscal Year Ending
March 31, 2025, Summary of Q&A
(Held November 7, 2024)

- Q1. What are the factors for increase and decrease in operating profit in the second half compared to the first half?
- A1. A factor for decrease in profit in the second half compared to the first half is the significant effect from capacity utilization. This is because we increased inventory (Note 1) by approximately 10.0 billion yen in the first half, but we expect inventory will be flat in the second half, so the capacity utilization rate will decline. In addition, the assumed exchange rate for the second half is US\$1:¥145, anticipating an appreciation in the yen from the average rate of US\$1:¥153.65 in the first half, which will be a factor for decrease in profit of approximately 3.5 billion yen. In the second half, we expect fixed costs, including depreciation, will increase by approximately 0.8 billion yen from the first half. By product, the reduction in the sales forecasts for capacitors and FBAR/SAW devices for communications in the integrated modules & devices product classification compared to the beginning of the fiscal year will have a significant impact.
- Q2. What are your thoughts on future expansion of capacity given that sales are lower than expected? Also, what is the forecast for capacity utilization for multilayer ceramic capacitors (MLCCs) in the second half? Have there been any changes in market share and the competitive environment?
- A2. Based on the assumption that inventory will be flat in the second half, we estimate that MLCC capacity utilization will be around 75% in the third quarter and around 70% in the fourth quarter. Although there have been changes in the details, such as the switch from small-sized MLCCs to large-sized MLCCs, we have been implementing capacity expansion at a steady pace within the 300.0 billion yen capital investment plan of the Medium-term Management Plan. In terms of the current fiscal year, we believe it is important to expand capacity for large-sized MLCCs for use in AI servers and other applications and our investment plan has not changed. We will reconsider investment for the next fiscal year as we carefully examine demand trends for the next fiscal year during the second half. I believe there are no changes with regards to the position of MLCCs.

- Q3. The forecast for sales of capacitors in the second quarter as of August was an increase of 11 – 15% from the previous quarter, but actual sales increased by 6%, which was significantly below the forecast. On the other hand, sales of inductors increased by 23% compared to the forecast increase of 17 – 21%. What factors were behind the limited increase in capacitor sales?
- A3. A major difference for capacitor sales compared to the forecast as of August was that sales of products for use in information equipment, communication equipment, and IT infrastructure/industrial equipment remained sluggish. For communication equipment, adjustments in high-end Chinese smartphones were prolonged. The trend for inductors is different because the composition of sales for use in North American smartphones is higher than for capacitors.
- Q4. You forecast there will be no operating profit in the second half. What steps will you take in the second half to improve profitability from the next fiscal year onward?
- A4. The challenging conditions for communication devices have continued, and we expect to bring fixed costs and other expenses into line with sales. Company-wide, we maintained a certain level of fixed costs to be ready for a sudden expansion in demand, but we will now focus only on essential areas. In addition, we will reconsider the level of investment for the next fiscal year after carefully examining market trends in the second half of the current fiscal year to strengthen our business structure and prepare for the next fiscal year.
- Q5. What are the current conditions and the outlook for products for use in AI servers?
- A5. Demand for products for use in AI servers is very strong and sales could more than double in the current fiscal year compared to the previous fiscal year. The number of MLCCs used in an AI server is also around 4-10 times more than in a regular server and there will be major gains in terms of capacitance and monetary value. In particular, demand for large capacity MLCCs, which is our specialty, will increase significantly. In addition to 100 μ F and 220 μ F, AI servers incorporate ultra-high capacity MLCCs such as 330 μ F. It is a large market with high unit prices, and we hope to increase our market share.
- Q6. You said that sales for use in high-end Chinese smartphones are sluggish. How do you expect this situation to progress over the second half and into the next fiscal year?
- A6. We think sales could increase heading into the next fiscal year, but we are still uncertain. We have made our plans based on the assumption that sales will remain sluggish in the second half.
- Q7. With regards to the balance sheet, what are your thoughts on the upper limit for net debt and financial discipline? Will you be able to plan toward building up free cash flow under the next Medium-term Management Plan?
- A7. We estimate the level of net debt will slightly exceed 80.0 billion yen at the end of the current fiscal year, which we do not consider to be a problematic range. However, we hope this is the low point and the level will move toward improvement. Under the next Medium-term Management Plan, we would like to make the necessary investment while increasing profit to produce returns that exceed investment, based on an improvement in the level of net debt.

Q8. What are the specific initiatives you are taking to revive sales of communication devices and improve profitability? Are you thinking about expanding sales in the middle and low-end markets to increase volume?

A8. We are working to expand sales of module applications using new technologies such as TLSAWTM and HPDP. However, we expect it will take a bit more time before we see the results. In the second half, we are shifting to a production system that matches demand and reducing inventory. We have no plans to expand sales in the middle and low-end markets.

Q9. Sales of products for use in automobiles fell short of the forecast. Other than the deterioration in market conditions, are there any changes in the competitive relationship with foreign companies?

A9. There are no changes in the competitive environment for products for use in automobiles in that Japanese companies are the main competition. In terms of market conditions, the market has stalled temporarily due to the slowdown in sales of BEVs, but there is no change to our view that demand for components will increase more than the number of vehicles.

Q10. You increased inventory by approximately 10.0 billion yen from the end of the previous fiscal year. Is that an appropriate level for inventory?

A10. We believe that inventory is at an appropriate level for capacitors and inductors. Demand is sluggish for communication devices, and we plan to reduce inventory in the second half.

Q11. We heard that investment will be slightly restrained next fiscal year. What will be the pace of increase in fixed costs?

A11. We expect depreciation will be higher than in the current fiscal year. We would like to take into consideration growth in demand and other factors in planning for costs that rise with increases in production such as personnel and electricity expenses.

Note 1: Change in inventory is on the actual basis excluding exchange rates and the portion with no effect on operating profit.

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