

TAIYO YUDEN CO., LTD.
Earnings Release Conference for the 3rd Quarter of the Fiscal Year Ending
March 31, 2025, Summary of Q&A
(Held February 7, 2025)

- Q1. What were the factors behind the change in operating profit in the third quarter compared to the previous forecast (as of November 2024) and the reasons for the forecast for operating profit in the fourth quarter? In the third quarter, the “Others” factor had a 1.4 billion yen negative impact on operating profit, but would operating profit be in line with expectations if this factor was excluded? Also, have there been any changes in the inventory plan since the previous forecast?
- A1. The “Others” factor was not part of the previous forecast. It resulted from an increase in inventory provision because of sluggish sales of communication devices, within the integrated modules & devices classification, and a further increase in inventory provision reflecting the depreciation of the yen at the end of December. Excluding this factor, operating profit was largely in line with expectations.
- As for the fourth quarter, we have increased the sales forecast compared to the previous forecast, mainly for capacitors. Capacity utilization for capacitors will rise from around 70% in the previous forecast to around 80%, so we expect there will be an effect due to this. With regard to exchange rates, the yen has depreciated since the previous forecast, which we expect will be a factor for increase in operating profit.
- There have not been any changes in inventory (Note 1) since the previous forecast, and we expect an increase of 10.0 billion yen on the full-year basis. We increased inventory by 10.0 billion yen in the first half, and we do not plan any changes in the second half.
- Q2. What are the forecasts for capacity expansion and capacity utilization for capacitors in the next fiscal year? You said that decrease in prices has been somewhat more moderate. How do you see the trend for the next fiscal year and beyond? Also, what is your timeframe for achieving profitability in communication devices where you will carry out business restructuring?
- A2. We had planned to expand capacity for capacitors by 10% to 15% from the previous fiscal year, but we are thinking of curbing expansion to around 5% next fiscal year. In terms of company-wide capital investment, we are considering keeping the amount within the 46.0 billion yen we forecast as depreciation for the current fiscal year. As we are currently in the process of formulating plans for the next fiscal year, I cannot give you a specific answer about capacity utilization for capacitors yet.
- We believe that demand will rise overall next fiscal year and expect that the rate of decrease in prices will be relatively stable.
- For communication devices, we are aiming to achieve profitability as soon as possible. We will carry out business restructuring and reduce fixed costs down to a level that is commensurate with sales while launching new products to improve profitability.

- Q3. Net sales of capacitors are projected to be at roughly the same level as in the second quarter through the third and fourth quarters. Seasonality seems to have disappeared. What are the factors behind that? Also, why did net sales of inductors in the third quarter increase from the second quarter, despite being expected to decrease in the previous forecast? Will net sales of inductors also continue to grow in the next fiscal year?
- A3. In the third quarter, sales of capacitors increased for use in information equipment, communication equipment, and automotive. In the fourth quarter, we expect sales of capacitors for use in communication equipment will decrease but will rise for other uses. Sales of inductors grew for use in information equipment, such as DDR5 memory modules, and we expect this trend will continue going forward.
- Q4. You said you are curbing capital investment and reducing the pace of expansion in production capacity for capacitors. How do you forecast the future growth scenario for the multilayer ceramic capacitor (MLCC) market overall? Could you also tell us about the operating status of the Chinese plant constructed in the previous fiscal year?
- A4. Under the Medium-term Management Plan 2025, launched in 2021, we had planned to expand capacity for capacitors by 10 to 15% a year. Initially, we saw strong demand growth, but demand has been sluggish for the past two years. As a result, TAIYO YUDEN's production capacity is now higher than demand and capacity utilization is low, while the increase in fixed costs due to upfront investment has pushed down profit.
- We would like to carefully examine future market growth in our next Medium-term Management Plan. Although the expansion in demand has been delayed for several years, we expect demand will increase again moving forward. We believe the MLCC market overall could grow by around 10% or slightly less. For capital investment in the next fiscal year, we will concentrate investment on bottleneck processes for items with strong demand, such as large, high-capacity products.
- We do not disclose operating status for individual plants, so I will not answer the question about the Chinese plant.
- Q5. Market conditions seem to be improving. Could you tell us about the differences with the previous forecast and the reasons behind these differences?
- A5. Strong demand related to AI servers has continued, and we expect high growth will continue in the future. We believe that inventory adjustments in the general-purpose server area have also been completed. There were adjustments in the automobile market because of a period of slowdown in battery EVs, etc. but we have been seeing renewed expansion in demand due to development of xEVs and the increasingly high functionality of Advanced Driver Assistance Systems (ADAS).

- Q6. You said that in the communication device business you will work to improve the profit structure through business restructuring. Has the very nature of the competitive environment changed compared to what it was like a few years ago? Do you think the current business restructuring will be enough?
- A6. We can see the demand trends for the next fiscal year to some extent. In response to these trends, we will implement business restructuring measures while developing new products with the aim of reorganizing the business. We recognize that our customer base is unbalanced, and we expect it will still take some time before it stabilizes. In the event that major changes take place in the market in the meantime, we will continue to consider various options without ruling anything out.
- Q7. Could you explain the details of the 1.4 billion yen incurred under “Others” among the factors for decrease in operating profit in the third quarter? Could there be similar expenses in the fourth quarter onward?
- A7. “Others” consists of inventory valuation loss amid sluggish sales of communication devices, which are included in integrated modules & devices, and the accounting valuation effect due to exchange rates at the end of the third quarter on December 31, 2024. This had a big impact on integrated modules & devices, which is a relatively small-scale business, but it also had an effect on other products.
We do not expect similar expenses to be incurred in the fourth quarter with the current exchange rate assumption.
- Q8. Could you tell us about the status of new product development? For example, what kind of products do you hope to launch next, such as thinner dielectric layers in capacitors or products with internal electrodes made of copper?
- A8. In the development of capacitor technology, TAIYO YUDEN has been working to advance both miniaturization and increased capacitance. Going forward, we will continue to focus on developing cutting-edge products. In the past, miniaturization advanced as smartphones drove the evolution of technology. However, recently, there has been an increase in demand for large, high-capacity products for use in AI servers. Large, high-capacity models have a high manufacturing process load and there is a limited number of manufacturers that supply them, so we believe this is an area where we can leverage our technological superiority. We think there could be further growth in the future as AI functions are expanded into PCs, automobiles, and other products, in addition to AI servers.
Thinner dielectric layers in capacitors not only contribute to miniaturization and increased capacitance but also have an effect in terms of high reliability, and we believe that they will be used in markets that require even greater reliability, such as aviation and aerospace, in addition to automobiles. Moreover, capacitors with internal electrodes made of copper are used in equipment that requires high voltage such as base station communication devices, but there has not been any significant expansion as a market sector yet.
In the area of inductors, we are focusing on metal inductors that use metallic magnetic

materials. Beginning with small-sized products used in cutting-edge smartphones, many are now used in DDR5 memory modules. Looking ahead the development of decentralized power circuits and vertical power supply for PCs and servers is anticipated and we expect that demand for metal inductors will rise further.

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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