

TAIYO YUDEN CO., LTD.

Earnings Release Conference for the 3rd Quarter of the Fiscal Year Ending

March 31, 2024, Summary of Q&A

(Held February 7, 2024)

Q1. What are the differences between the results for the third quarter and your expectations as of November? How have the full-year results forecasts changed in terms of the initial and current forecasts? Also, what assumptions have you made about the factors for increase and decrease in operating profit in the fourth quarter compared to the third quarter?

A1. In the third quarter, sales outperformed the forecast somewhat due to strong sales of products for use in information equipment and communication equipment. Operating profit fell short of the forecast, mainly due to lower inventory, the impact of price reductions accompanying the increase in sales of products for use in Chinese smartphones, and other factors despite the control of fixed costs and the depreciation of the yen, which were factors for increase in profit.

In the full-year results forecasts, we initially expected profit growth of 24.2 billion yen year on year with the capacity utilization effect. However, we have revised profit growth to 0.3 billion yen due to the delayed recovery in demand in the IT infrastructure/industrial equipment market. In addition, we initially estimated the effect of selling prices would be a factor for decrease in profit of 21.1 billion yen, but we have revised the amount of decrease to 28.5 billion yen due to changes in the sales mix and other factors. On the other hand, we have revised the amount of increase in fixed costs to 2.7 billion yen, down from our initial expectation of 17.1 billion yen. Also, with our initial assumption of US\$1:¥130, the 5.0 billion yen effect of exchange rates was a factor for decrease in profit. However, as exchange rates have trended towards a weaker yen, we expect the effect of exchange rates will be a factor for increase in profit of 6.9 billion yen.

The main factors for decrease in profit from the third quarter to the fourth quarter are the decrease in sales, increase in fixed costs, and the effect of exchange rates. We expect a decrease in sales of about 8%, centered on products for use in consumer products and communication equipment. In terms of the impact of selling prices, we expect price reductions in line with those in the third quarter. We expect fixed costs to increase 1.5 billion yen, including depreciation expenses. The exchange rate assumption for the fourth quarter is US\$1:¥145, an appreciation in the yen of about ¥4, which we estimate will push profit down by around 0.8 billion yen. On the other hand, inventory decreased 3.5 billion yen in the third quarter, but in the fourth quarter we plan a buildup of around 5.0 billion yen, which will be a factor for increase in profit.

- Q2. What was capacity utilization for multilayer ceramic capacitors (MLCCs) in the third quarter and what will it be in the future? I believe there is a possibility that capacity utilization will be increased in March depending on demand for the next fiscal year. For which applications can we expect an increase in capacity utilization?
- A2. Capacity utilization for MLCCs in the third quarter was 65 to 70%. This fell somewhat short of around 70%, which was our expectation as of November, mainly due to an increase in demand for small-sized products with low production loads for use in Chinese smartphones and others. In the fourth quarter, we assume capacity utilization for MLCCs will be 70 to 75%, but it is possible we will increase operations and build up inventory further depending on demand forecasts for next fiscal year. In addition to products for use in automobiles, where demand is strong, we have expectations about rising demand for large-sized products for use in information equipment and IT infrastructure/industrial equipment.
- Q3. A 0.7 billion yen loss is anticipated in the fourth quarter. Will there be any special expenses? If that is the case, what will be the impact on the next fiscal year?
- A3. We have factored 1.0 billion yen in extraordinary losses into our plans. Due to the 2024 Noto Peninsula Earthquake, we anticipate repair costs and loss on disposal of inventory at our subsidiary in Niigata Prefecture, but there will be no impact on the next fiscal year. The earthquake had no effect on operations, and normal business activities were maintained.
- Q4. What were the increases and decreases in inventory by product classification in the third quarter? Also, you will increase inventory by 5.0 billion yen in the fourth quarter compared to the third quarter when you reduced inventory by 3.5 billion yen, so there should be a significant boost to profit due to the capacity utilization effect. Why will profit decline from the previous quarter in the fourth quarter?
- A4. More than half of the 3.5 billion yen decrease in inventory in the third quarter was for MLCCs. Inventory also decreased for inductors and integrated modules & devices which saw higher-than-expected sales.
- In the fourth quarter, we expect profit to decline due to the decrease in sales, increase in fixed costs, and the effect of exchange rates, despite the effect of increased profit due to higher inventory.

- Q5. It is considered that demand has entered an upward cycle. What is the outlook and product strategy for the next fiscal year?
- A5. We consider that demand will gradually turn upwards. Market inventory adjustments are coming to an end, and semiconductor shortages are also resolving. In addition, we expect that demand for electronic components will gradually grow with advances in the functionality of equipment, efficiency of power sources, and more use of electronic components. In particular, we expect demand for high-end components will expand for use in automobiles and IT infrastructure/industrial equipment, and so we would like to increase our market share in this area.
- Q6. Orders received and order backlog for the Others product classification have increased. What is behind the increase and what is the outlook for the future?
- A6. Orders for conductive polymer hybrid aluminum electrolytic capacitors have increased. We are focusing on this area as a product that will grow in the future.
- Q7. What are your thoughts on capital investment and operations in the next fiscal year?
- A7. We will proceed with capital investment in accordance with the Medium-term Management Plan 2025 as in the past. We will expand product capacity for large-sized, high-end products for which demand will grow in the future, primarily MLCCs. Moreover, current orders are trending up, and the BB ratio has also increased, so we anticipate that capacity utilization in the next fiscal year will be higher than in the current fiscal year.
- Q8. What is the outlook for selling prices next fiscal year?
- A8. Although the prices of products for use in communication equipment tend to fluctuate due to the large number of quarterly contracts, the conditions are not conducive to large price reductions. The prices of products for use in automobiles and IT infrastructure/industrial equipment are expected to remain relatively stable as contract terms are longer and price fluctuations less frequent.
- Q9. What are the benefits of AI servers and edge AI?
- A9. The impact from AI servers is still small, but we have high expectations for this market as high-capacity, high-reliability products are required, and the number of components used will also increase. For AI smartphones, we have hopes that future expansion in AI applications and increasing sophistication in product design will lead to future demand growth.

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