

TAIYO YUDEN CO., LTD.

Earnings Release Conference for the 2nd Quarter of the Fiscal Year Ending

March 31, 2024, Summary of Q&A

(Held November 7, 2023)

- Q1. What assumptions have you made for capacity utilization, inventory changes, and selling prices for multilayer ceramic capacitors (MLCCs) from the second quarter onward?
- A1. Capacity utilization for MLCCs in the second quarter was around 65%. We expect capacity utilization will be around 70% in the third quarter. In the fourth quarter, we expect capacity utilization to be at the same level as in the third quarter, but it is possible that we will increase operations and build up inventory depending on the demand forecast for the next fiscal year. Companywide inventory on the actual basis excluding exchange rates and the portion with no effect on operating profit decreased 4.5 billion yen from the previous quarter in the second quarter, and we do not plan any changes in inventory in the third quarter compared to the second quarter. Furthermore, the pace of price reductions across the company in the second quarter was at the same level as in the previous quarter, but we expect the pace in the third quarter will moderate somewhat compared to the second quarter.
- Q2. What assumptions have you made about the factors for increase and decrease in operating profit in the third quarter?
- A2. The factors for increase in profit in the third quarter compared to the second quarter are the effect from capacity utilization and the impact of exchange rates. In the third quarter, we are planning for an increase in sales compared to the previous quarter, and we also expect an improvement in the product mix for MLCCs. And there will be no inventory changes in the third quarter compared to the second quarter when we reduced inventory. As a result, the effect from capacity utilization will push up profit. In addition, the exchange rate assumption for the third quarter is US\$1:¥147, a depreciation in the yen of approximately 5 yen from the previous quarter, so we expect an increase in profit of around 1.0 billion yen. On the other hand, we expect an increase of 1.8 billion yen in fixed costs will be a factor for decrease in profit.

- Q3. What is the expectation for profit in the fourth quarter? Is it possible to achieve the full-year plan for operating profit?
- A3. It is expected that inventory adjustments in the IT infrastructure/industrial equipment market will be completed in the third quarter, and the extent of decline in sales in the fourth quarter compared to the third quarter will be more moderate than the usual seasonal decline. We do not expect there will be a significant difference between the third and fourth quarters in terms of operating profit. We hope to achieve the full-year target as the impact of exchange rates will push up profit.
- Q4. What kind of changes have arisen in Medium-term Management Plan 2025 leading to the issuance of 50.0 billion yen in convertible bonds? Considering the Company's equity-to-asset ratio, would it not have been possible to raise funds through bank loans? What do you think is an appropriate level for the equity-to-asset ratio? Also, what assumptions have you made about the cost of capital?
- A4. There are no changes to the plan for cash outflows consisting of 300.0 billion yen in capital investment and 60.0 billion yen in shareholder returns. However, we expect a decrease of cash inflows due to the deterioration in market conditions, and as there will be a temporary increase in net debt, we conducted this fund raising. Up until now, we have used indirect financing, but we wanted to decrease the proportion of indirect financing because of rising geopolitical risk and other factors. Our target for the equity-to-asset ratio is 60% as a guide. We opted for convertible bonds because the equity-to-asset ratio is falling at present and ensuring a certain equity-to-asset ratio allows us to maintain our relationships with customers. In terms of the cost of capital, we were aware that it was previously 8%, but we also recognize that the cost of shareholders' equity is currently rising. We hope to ensure that we generate returns with an awareness of the cost of capital after the conversion of shares.
- Q5. The conversion price is 4,360 yen, which is little different from the share price when the bonds were issued. Why did you set the conversion price at this level?
- A5. We set the conversion price taking into consideration the amount of funds raised and other factors. The bonds come with a soft call provision that allows TAIYO YUDEN to facilitate conversion of the bonds into shares at a share price of 130% or more after three years. We aim to realize a share price in excess of 130%.
- Q6. What were the trends for MLCC orders and the BB ratio in the second quarter?
- Q6. MLCC orders increased from the previous month in July, August, and September. The BB ratio recovered to over 1.0.

- Q7. What is the outlook for MLCC business results in the next fiscal year?
- A7. Our view is that sales will increase year on year in the next fiscal year. We believe that sales will expand next fiscal year because it is expected that inventory adjustments in the IT infrastructure/industrial equipment and other markets will be completed, demand for products for use in automobiles remains strong, and there will be no sense of excess inventory among customers for products for use in automobiles.
- Q8. What applications are contributing to the bottoming out of the IT infrastructure/industrial equipment market?
- A8. There is an upward trend in the market for products for use in base stations and servers. Also, while the market for products for use in AI servers is still small, it has been gradually contributing to sales. We also expect there will be an increase in the number of large capacity products used in AI servers. We believe the benefits from AI servers will increase gradually from the fourth quarter through the next fiscal year.
- Q9. Is my understanding correct that sales of communication devices increased slightly in the second quarter from the previous quarter? What is the outlook for communication devices in the third and fourth quarters?
- A9. Sales of communication devices increased slightly in the second quarter from the previous quarter. We expect sales will also increase slightly in the third quarter but will decrease somewhat in the fourth quarter due to seasonal factors. In the previous fiscal year, sales were sluggish due to the impact of inventory adjustments in the Chinese smartphone market. However, there has been an upturn in sales this fiscal year with the completion of adjustments. We have also been focusing on expansion into the market for high-reliability communication devices, mainly for use in automobiles.
- Q10. You say that the pace of price reductions will moderate in the third quarter. Are you talking about average selling prices (ASP) or a product-to-product comparison? Also, does the improvement in the product mix in the third quarter mean an increase in the sales ratio of high value-added products such as those for use in IT infrastructure/industrial equipment?
- A10. We expect that the pace of price reductions will moderate, comparing prices for the same products. The product mix is expected to improve due an increase in sales of large-sized products with stable prices, such as those for use in automobiles and IT infrastructure/industrial equipment, in the third quarter compared to the previous quarter.

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