

TAIYO YUDEN CO., LTD.

Earnings Release Conference for the Fiscal Year Ended March 31, 2024

Summary of Q&A

(Held May 8, 2024)

*Previous fiscal year: FYE March 31, 2024, current fiscal year: FYE March 31, 2025

Q1. The year-on-year sales growth plan for multilayer ceramic capacitors (MLCCs) in the current fiscal year is approximately 16%. What are the reasons behind this? Also, what are your assumptions for capacity utilization?

A1. In the current fiscal year, we expect significant growth in sales of products for use in information equipment and AI-related IT infrastructure/industrial equipment, in addition to products for use in automobiles. In the previous fiscal year, there were inventory adjustments in the information equipment and IT infrastructure/industrial equipment markets, but we anticipate sales will rebound from those adjustments in the current fiscal year. TAIYO YUDEN has been boosting production capacity for large-sized, high reliability products, and we believe this will lead to an increase in sales.

MLCC capacity utilization in the fourth quarter of the previous fiscal year was 70 to 75%, and we have assumed the level will be around 80% in the first quarter of the current fiscal year. From the second quarter onward, capacity utilization will rise further in line with the increase in the sales.

Q2. Of the factors for increase and decrease in operating profit in the current fiscal year, please explain the impact of selling prices, the effect from capacity utilization, and fixed costs compared to the previous fiscal year.

A2. The pace of price reductions in the current fiscal year will be similar to the pace in the previous fiscal year, so we have made relatively cautious assumptions. The effect from capacity utilization will be a significant factor for increase in profit due to the increase in sales as well as the impact of higher inventory and improvement in the product mix. While we reduced inventory by 8.0 billion yen in the previous fiscal year, we plan to build up inventory by around 10.0 billion yen in the current fiscal year (Note 1). In addition, an improvement in the product mix is expected due to an increase in demand for products for use in information equipment and IT infrastructure/industrial equipment. We anticipate an increase of 18.0 billion yen in fixed costs owing to increases in depreciation and R&D expenses as well as rising labor and power costs associated with higher capacity utilization.

Q3. While sales of MLCCs in the first quarter are flat compared with the fourth quarter of the previous fiscal year, you anticipate year-on-year growth of approximately 16% on the full-year basis. What reasons are behind your expectation of significant growth from the second quarter onward? Also, sales of inductors are planned to increase slightly year on year, but why is the rate of growth lower than for MLCCs?

A3. Compared to the fourth quarter of the previous fiscal year, in the first quarter, we expect MLCC sales will increase for products for use in information equipment and IT infrastructure/industrial equipment and decrease for products for use in consumer products, communication equipment, and automobiles. From the second quarter onward, we have factored in the increase in sales of products for smartphones in North America, which will enter the period of peak demand, in addition to the increase in sales of products for use in information equipment and IT infrastructure/industrial equipment. On the full-year basis, we expect sales of products for use in automobiles, information equipment, and IT infrastructure/industrial equipment will increase from the previous fiscal year, benefiting from technological advancements such as xEV and AI.

The forecast for inductors is different because the fields of application are not as broad as MLCCs. We are in the process of expanding the market for inductors, and we are working toward increasing sales to the automobile and IT infrastructure/industrial equipment markets.

Q4. You are expecting an increase in sales of products for use in information equipment and IT infrastructure/industrial equipment, where demand had slowed up until the previous fiscal year. Is this forecast based on current order conditions and other such factors?

A4. We expect that sales of products for use in IT infrastructure/industrial equipment that are related to AI will increase more than we had previously predicted. We prepared the plan taking account of IT infrastructure/industrial equipment market trends amid an increase in the number and capacitance of MLCCs used in AI servers.

- Q5. In October 2023, TAIYO YUDEN issued convertible bonds. Why did you choose convertible bonds rather than borrowing, and why was the conversion price set at 10%? Also, what are your thoughts on what the balance sheet should look like in the future?
- A5. We needed to raise funds because cash inflows from operating activities were insufficient for the Medium-term Management Plan 2025. We chose the method of fund raising bearing in mind that any major discrepancy between the financial structure of our competitors and the Company will affect how customers evaluate TAIYO YUDEN. We set the conversion price taking into consideration the scale of the funds to be raised.
- In terms of the balance sheet, we will strengthen our products and achieve the targets in the Medium-term Management Plan 2025, and then we hope to achieve the capital allocation we initially envisaged when we formulated the plan although it may take some time.
- Q6. How do you see the distribution of sales and operating profit in the first and second half of the current fiscal year?
- A6. We expect the proportion of both sales and operating profit will be higher in the second half than in the first half.
- Q7. The impact of selling prices was a factor for decrease in profit in the previous fiscal year. Was most of this from the impact of price reductions for MLCCs? Are there any differences in price trends by product and market sector?
- A7. MLCCs had a big impact. Products for use in communication equipment and other applications are subject to fluctuation because quarterly price revisions are common. By comparison, prices of products for use in automobiles and IT infrastructure/industrial equipment are more stable.
- Q8. Operating profit in the fourth quarter of the previous fiscal year was approximately 1.0 billion yen lower than the plan as of February. What changes were there?
- A8. The reasons why operating profit in the fourth quarter fell short of the plan were the lower capacity utilization effect and the increase in fixed costs. We had planned a 5.0 billion yen increase in inventory, but the increase stood at only 2.5 billion yen, resulting in lower-than-planned capacity utilization. The reasons for this were the slowdown in demand for communication devices in the Chinese market, which reduced capacity utilization, and higher-than-expected sales of inductors and aluminum electrolytic capacitors. In addition, fixed costs were 0.3 billion yen higher than planned due to an increase in R&D expenses and other costs.

- Q9. What are your expectations about the contribution of AI PCs and AI smartphones to earnings in the current fiscal year and next fiscal year?
- A9. Although we do not think AI PCs and AI smartphones will make a major contribution yet in the current fiscal year, we are expecting a contribution in the next fiscal year. On the other hand, AI servers have been gradually growing since the previous fiscal year, so we anticipate a contribution to earnings from the second half of the current fiscal year.
- Q10. What changes will there be in the number of MLCCs used in AI servers?
- A10. It's difficult to generalize as there are considerable differences depending on the AI server configuration. We anticipate the number of MLCCs will be double the number in conventional servers, but it could also increase further in the future.
- Q11. There is some discussion that the expansion of demand for EVs has slowed and the shift from internal combustion vehicles is stalling. That being the case, what would be the impact on TAIYO YUDEN?
- A11. The shift toward hybrid vehicles, even if not EVs, is expected to continue, and is unlikely to have a major impact. Also, since the number of MLCCs used in Advanced Driver Assistance Systems (ADAS) and safety applications is also continuing to increase, there are no significant negative changes in the expansion of the demand in the automobile market.

Note 1: The amount of increase and decrease on the actual basis excluding the portion with no effect on exchange rates and operating profit

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