

TAIYO YUDEN CO., LTD.
Earnings Release Conference for the 1st Quarter of the Fiscal Year Ending
March 31, 2024, Summary of Q&A
(Held August 3, 2023)

- Q1. Why was operating profit in the first quarter lower than the initial forecast? Also, what assumptions have you made in terms of the factors for increase and decrease in operating profit in the second quarter?
- A1. With regard to operating profit in the first quarter, the factors for increase compared to the initial forecast were the 1.5 billion yen effect of exchange rates and the 1.7 billion yen reduction in fixed costs. On the other hand, the 2.5 to 3.0 billion yen effect of capacity utilization due to inventory reduction and somewhat lower-than-expected sales volume was a factor for decrease in profit. The 0.5 to 1.0 billion yen effect of selling prices due to changes in the customer mix was also factor for decrease in profit.
- The factors for increase in profit in the second quarter compared to the first quarter will be the effects of exchange rates and capacity utilization. The assumed exchange rate in the second quarter is 140 yen, a depreciation of approximately 5 yen compared to the first quarter, so we expect to increase profit by 0.9 billion yen. In addition, although a 3.5 billion yen reduction in inventory is planned, the capacity utilization effect will contribute to increase in profit as sales volume will rise. On the other hand, an increase in fixed costs of approximately 3.0 billion yen is expected to be a factor for decrease in profit.
- Q2. Has the picture of first and second half profit levels changed from the initial forecasts? How about the level of inventory?
- A2. The full-year operating profit forecast and inventory forecast have not changed from the initial forecast. Operating profit is weighted more toward the second half than the first half. We will control inventory while watching demand trends, but at present we expect the level at the end of the current fiscal year to be largely the same as the level at the end of the previous fiscal year.

- Q3. What assumptions have you made about the trends for multilayer ceramic capacitor (MLCC) capacity utilization and selling prices for the first through second quarters? Also, what are the forecasts by market sector?
- A3. MLCC capacity utilization in the first quarter was 60 to 65%, and we have assumed it will be around 65% in the second quarter. In the second quarter, we expect sales of MLCCs will increase in all market sectors, and the pace of price reductions will be the same as in the first quarter.
- Q4. Did reductions in electronic component inventory by customers in the automobile market have an effect in the first quarter? When do you think MLCC inventory in the automobile market will normalize?
- A4. With slight inventory adjustments in the first quarter, sales of MLCCs for use in automobiles decreased compared to the previous quarter, but there is no perception that customer inventory is excessive. We expect sales to rise again from the second quarter onward due to an increase in automobile production and increasing use of electronic components and electronic motors in automobiles.
- Q5. Are there any changes from the initial forecast for MLCC selling prices?
- A5. As I mentioned earlier, selling prices in the first quarter fell somewhat more than the initial forecast. We expect the second quarter will also be quite challenging and have assumed the rate of decline in prices will be the same as in the first quarter.
- Q6. Will the rise of AI servers benefit TAIYO YUDEN's MLCC business?
- A6. The business will benefit in the future. AI servers require high capacitance, and the number of large-sized MLCCs will also increase, which is positive for TAIYO YUDEN's MLCC business. Although we cannot say for certain, we expect the number of MLCCs will more than double compared to conventional servers. The market is still small, but it will expand further in one or two years' time with a positive impact on earnings expected.

- Q7. At the beginning of the fiscal year, no major changes in inventory were planned in each quarter, but inventory was reduced by 1.5 billion yen in the first quarter and is expected to be reduced by 3.5 billion yen in the second quarter. What are the factors behind inventory reductions?
- A7. In the first quarter, sales of communication devices and some other products increased more than expected, and inventory fell. In the second quarter, we will increase production of MLCCs for high-end smartphones, but we will reduce inventory, mainly of other small-sized products.
- Q8. What were the trends for MLCC orders in the first quarter? When will the BB ratio reach 1.0?
- A8. MLCC orders decreased from the previous month in April, increased in May, and decreased in June. The BB ratio for the first quarter was 0.93, rising for a third consecutive quarter. In July, orders increased and the BB ratio was also 1.0, so we would like to see a BB ratio of at least 1.0 from the second quarter onward.
- Q9. Are there any concerns about the launch of new model high-end smartphones?
- A9. We do not see any particular risks.
- Q10. Are there any changes to your capital investment schedule? Considering the start-up of the new MLCC plant in China, should we assume depreciation expenses will reach the 10.0 billion yen level in the second quarter?
- A10. There are no changes to the full-year forecasts for capital investment and depreciation expenses. Due to the new plant in Malaysia scheduled for completion in September, we also anticipate an increase in capital investment in the second quarter. In addition, depreciation expenses are expected to increase by about 0.7 billion yen from the previous quarter.
- Q11. How did you curb fixed costs in the first quarter compared to the initial forecast? Do you mean that fixed costs, including depreciation expenses, will increase by 3.0 billion yen in the second quarter?
- A11. In the first quarter, we curbed fixed costs overall as a result of cost control initiatives. In the second quarter, we expect fixed costs will increase by 3.0 billion yen in total compared to the first quarter with 0.7 billion yen in depreciation expenses, one-off costs of 0.7 billion yen associated with the start-up of the new plant in China, and 1.6 billion yen of cost increases related to sales growth.

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