

TAIYO YUDEN CO., LTD.

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

March 31, 2022, Summary of Q&A

(Held November 5, 2021)

Financial Results

Q1. What were the trends for multilayer ceramic capacitor (MLCC) orders in the second quarter, and what is the future direction?

A1. In July, orders received fell from the previous month. There was also a slight decline in August and a decline in September. Orders received were lower than in the previous quarter due to the impact of smartphone inventory adjustments in the Greater China region and automobile supply chain constraints. Orders might decline further in the third quarter, but we will address the order backlog which is at a high level.

Q2. Although MLCC sales in the second quarter were lower than the forecast announced in August, the increase in inventory exceeded the projection. Why did increased production not translate into sales?

A2. MLCC sales did not reach the target due to operational constraints at the Malaysian plant with the impact of COVID-19. Meanwhile, production sites outside of Malaysia increased capacity utilization and inventory of products for use in automobiles and other applications, but this did not translate into sales in the second quarter as they were not replacements for the Malaysian plant's products.

Q3. What are the differences between the forecasts announced in August and business results for the second quarter?

A3. Net sales were 88.8 billion yen, 2.4 billion yen lower than the forecast. Although sales fell short of the target, due in part to operational constraints in Malaysia, operating income was higher than forecast. There were three main factors. First, although we had planned a 3.0 billion yen increase in inventory, it increased to 5.6 billion yen. The increase in fixed costs was 1.5 billion yen, about 1.0 billion yen less than the forecast. In addition, the assumed exchange rate was US\$1:¥109 but the actual exchange rate was ¥110, resulting in an impact of around 0.6 billion yen from depreciation in the value of the yen.

Q4. Sales of MLCCs increased in the second quarter compared to the previous quarter. What was the contribution of each market sector to the increase in sales?

A4. Sales of MLCCs increased for all market sectors.

Future Outlook

- Q5. What is the forecast for inventory through to the end of the fiscal year? Also, what is the assumed capacity utilization for the third and fourth quarters?
- A5. At the end of the third quarter, we plan to increase inventory by about 3.0 billion yen overall, with no increase or decrease at the end of the fourth quarter. Capacity utilization for MLCCs is forecast to be about 95% in the third quarter and is expected to decrease in the fourth quarter.
- Q6. Is TAIYO YUDEN's inventory at an appropriate level? Also, you are not planning to build up inventory in the fourth quarter, but will it reach an appropriate level at the end of the third quarter considering demand in the second half and next fiscal year?
- A6. We will continue building up inventory in the third quarter taking account of our BCP in addition to the increase in inventory needed due to sales growth. We believe the level of inventory at the end of the third quarter will be sufficient to meet orders and other requirements. As for the fourth quarter, at present, we are assuming we will not build up inventory, but we will watch demand trends for next fiscal year while making decisions.
- Q7. What is the background to the current drop in orders? How do you expect orders to recover in the future?
- A7. It is mainly orders for products used in smartphones and automobiles that have dropped. For smartphones, production is affected by difficulties in procuring semiconductors and other components, particularly in the Greater China region, as well as by supply chain constraints. There is also the impact of unused inventories due to sluggish sales volume. On the other hand, while automobile production is facing procurement and supply chain constraints, actual demand remains strong. We believe orders of products for both applications will recover in the fourth quarter.
- Q8. Is the adjustment in orders temporary and will you continue increasing capacity utilization through to the first quarter of the next fiscal year? Will you make any changes to the capital investment plan?
- A8. We expect capacity utilization to increase, and we will proceed with capital investment and capacity expansion as planned.
- Q9. What are the sales trends for MLCCs by market sector in the third quarter?
- A9. We expect sales of products for use in IT infrastructure/industrial equipment will increase, sales for use in communication equipment will decrease, and sales for use in consumer products, information equipment, and automobiles will be largely the same as in the second quarter.

Q10. Sales of inductors are expected to decline in the third quarter. What are the trends for each market sector?

A10. We expect sales of products for use in all market sectors will decline, with the exception of communication equipment.

Q11. You have assumed bigger price reductions in the second half than in the first half. Are price pressures increasing? Or are you taking account of periodic price revisions?

A11. The assumptions for the second half include the impact of next year's price negotiations and other factors. Since price reductions were moderate in the first half, we expect they will be somewhat bigger by comparison.

Other

Q12. What were the operational constraints imposed on the Malaysian plant in the second quarter due to COVID-19? What is the current status of operations?

A12. Due to the nationwide spread of infections in Malaysia, operations at TAIYO YUDEN's plant were also shut down from the end of August until September 10. The spread of infections has now subsided in the region where the plant is located, and we do not expect any major impact on operations in the third quarter.

Q13. How do you view inventory levels at customers of products for use in smartphones and automobiles?

A13. Customer inventory levels of products for use in smartphones are high compared to before the COVID-19 pandemic, and we believe levels are somewhat excessive. Customer inventory levels of products for use in automobiles are also high compared to normal, but not excessive.

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