

TAIYO YUDEN CO., LTD.

Earnings Release Conference for the Fiscal Year Ended March 31, 2022

Summary of Q&A

(Held May 10, 2022)

*Previous fiscal year: FYE March 31, 2022, current fiscal year: FYE March 31, 2023

Financial Results

Q1. What were the results for changes in inventory in the fourth quarter of the previous fiscal year compared to the assumptions you made as of February?

A1. As of February, we had planned not to increase inventory in the fourth quarter, but we built up inventory by about 4.0 billion yen to prepare for future expansion in demand for large-sized, high reliability products requiring high production loads such as products for use in automobiles and IT infrastructure/industrial equipment.

Q2. What were the trends for multilayer ceramic capacitor (MLCC) orders in the fourth quarter, and what was the status of recovery in demand for product for use in smartphones in China?

A2. MLCC orders increased from the previous month in January, decreased in February, and increased in March. Orders of products for use in automobiles and IT infrastructure/industrial equipment rose. As of February, we had forecast that demand for products for use in smartphones in China would recover around April or May. However, we now believe that the recovery period will be in the second quarter onward, because of the impact of lockdowns in some regions due to the spread of COVID-19.

Future Outlook

Q3. What are the assumptions for MLCC production capacity and capacity utilization?

A3. We will continue to expand production capacity by 10 - 15%, continuing on from the previous fiscal year.

Capacity utilization will be about 90% in the first quarter, which is around the same as in the fourth quarter of the previous fiscal year. We expect high capacity utilization of around 90 to 95% from the second quarter onward.

Q4. What are the assumptions for changes in inventory and the projections for selling prices?

A4. Demand is expected to increase from the second quarter onward, and we plan to build up company-wide inventory by around 10.0 billion yen in the first quarter and around 9.0 billion yen for the full year compared to the end of the previous fiscal year.

As for selling prices, we have made cautious plans, expecting a decline of around 3% for the full year.

Q5. What is the impact of the lockdowns in some regions? Will you be able to recoup the decline in sales from the second quarter onward?

A5. We have factored an impact of around 7.0 billion yen into earnings forecasts as the risk of lower sales in the first quarter. We expect we will be able to catch up to a certain extent in the second quarter.

Q6. What is the assumption for exchange rate sensitivity for the current fiscal year?

A6. We estimate that a one yen change in the U.S. dollar exchange rate will have an impact of 2.4 billion yen/year on net sales and 1.4 billion yen/year on operating income.

Q7. Among the factors for increase or decrease in the operating income forecast for the current fiscal year, you assume the capacity utilization effect is half that of the previous fiscal year. What is the reason for this? Also, the effect of cost reductions is a factor for decrease in profit. Why is this?

A7. In the previous fiscal year, we built up inventory by 20.0 billion yen, but we plan to increase it by around 9.0 billion yen in the current fiscal year, so the approximate 11.0 billion yen decrease in inventory buildup is expected to be a factor in pushing down the effect of capacity utilization.

In addition, considering the international situation and other factors, we have factored some 5.0 to 6.0 billion yen in cost increases, such as logistics and raw material costs, into the earnings forecasts as a risk. The increase in raw material costs has a negative impact on the effect of cost reductions, so this is a factor for decrease in profit in the current fiscal year.

Q8. If costs increase, they can be passed on to selling prices, but the assumption is that selling prices will fall. Is this because you have cautiously factored in a decline in selling prices?

A8. The pace of decline in selling prices is expected to remain quite moderate in the current fiscal year compared to the past. Selling prices will be determined through negotiations with customers, including the impact of cost increases such as raw material and logistics costs, but we have set a cautious assumption.

Q9. What is the breakdown of the 60.0 billion yen in capital investment for the current fiscal year? Will you increase production of high-reliability products for use in automobiles and IT infrastructure/industrial equipment?

- A9. Approximately 5.0 billion yen is for the Yawatabara Plant materials building scheduled for completion in the current fiscal year. In addition, 60.0 billion yen is planned for facilities to accommodate a 10-15% increase in MLCC capacity, equipment to be installed in the new materials building, and the portion carried over from the previous fiscal year.
- Large-sized and high-reliability products for automobiles and IT infrastructure are accounting for a higher proportion of our products, and demand for such products is also expected to expand in the future, so we are preparing to meet this demand.
- Q10. MLCC sales in the first quarter will be down 6-10% from the previous quarter, but are expected to be higher in the second quarter. What are the driving forces behind this?
- A10. In the second quarter, we expect higher sales due to an increase in demand for products for use in smartphones, taking into account seasonal factors, and a recovery from lockdowns in some regions, which were factored in as a risk in the first quarter.
- Q11. Fixed costs increased by 17.1 billion yen in the previous fiscal year and are expected to increase by 16.5 billion yen in the current fiscal year. Should we expect the same level of increase in fixed costs in the next fiscal year and beyond?
- A11. We assume that logistics costs will increase in the current fiscal year compared to the previous fiscal year. In addition, fixed costs, such as labor costs, will also increase in line with capacity and scale expansion, but we would like to keep the increase under control while promoting productivity improvements. We intend to make improvements so that we can absorb the increase in logistics costs into fixed costs.

Other

- Q12. Demand for MLCCs is increasing for large-sized products for power supply systems used in automobiles and other applications, as well as for products with high voltage and temperature resistance properties. How will TAIYO YUDEN accommodate this demand? What are your strengths compared to your competitors?
- A12. The Company focuses on development of materials technology, and the standard of both our manufacturing and evaluation methods is increasing year after year. We are strengthening our manufacturing in this way and enhancing our underlying technologies to differentiate our products from those of other companies. Although it is difficult to make general comparisons with other companies, we are increasing the percentage of our sales to the automotive industry every year.

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