



Analysis of operating results and financial situation

Review of fiscal 2018

In fiscal 2018, there was an increase in the number of electrical equipment installed in automotive electronics due to improvements in vehicle environmental performance and safety, generating higher demand for electronic components. Until the third quarter there was growth in demand, mainly for component products used in various applications. For example, the increasing functional sophistication of smartphones and PCs led to growth in the number of components used per end product. In the fourth quarter, however, demand for components fell slightly partly because of reduced smartphone sales.

By focusing on promising markets, Murata increased net sales by 14.8% year-on-year to 1,575.0 billion yen in fiscal 2018. This growth was achieved due not only to

the drastic growth of multilayer ceramic capacitors, Murata's core product group, but to the consolidation of the lithium-ion battery business, whose acquisition process was completed in September 2017.

Operating income was 266.8 billion yen, up 63.4%, income before income taxes was 267.3 billion yen, up 59.3%, and net income attributable to Murata Corporation was 206.9 billion yen, up 41.6% from the previous fiscal year. Negative factors such as increased production-related costs to meet demand and the impairment loss related to property, plant and equipment were more than canceled by the effects of the production increase as well as cost reduction initiatives, lower depreciation and amortization, and continued launch of new products.

Actual increase/decrease in operating income (Billion yen)



Sales by product

(Billion yen)

	FY2017 results	FY2018 results	Increase/decrease	Reasons for increase/decrease
Capacitors	449.8	574.2	+124.4 (+27.7%)	Chip multilayer ceramic capacitors were strong in a broad range of applications including products for automotive electronics where vehicle electrification is progressing, and those for smartphones and PCs, generating a significant sales increase.
Piezoelectric Components	152.0	138.6	-13.4 (-8.8%)	Sales of SAW filters declined owing to a decline in sales volume of high value added products for smartphones and a decline in prices.
Other Components	322.3	392.2	+69.9 (+21.7%)	Substantial sales growth was achieved as demand for MEMS sensors for automotive electronics increased, and sales in the lithium-ion battery business acquired in September 2017 were added, despite a decrease in demand for coils for high-end smartphones.
Communication Modules	395.0	425.5	+30.5 (+7.7%)	MetroCirc™ and modules for communication equipment used for new high-end smartphone models grew and increased sales, despite short-range wireless communication modules for high-end smartphones decreased.
Power Supplies and Other Modules	48.9	41.2	-7.6 (-15.6%)	Sales decreased due to a decrease in demand for office equipment.
Total Product Net Sales	1,368.0	1,571.7	+203.7 (+14.9%)	



Consolidated Balance Sheets

(Millions of yen)

	End of FY2017 March 31, 2018	End of FY2018 March 31, 2019
Assets		
Current assets	810,260	933,941
Cash	168,902	181,956
Short-term investments	30,747	69,781
Marketable securities	20,790	27,364
Trade notes receivable	2,895	4,053
Trade accounts receivable	256,140	271,566
Allowance for doubtful notes and accounts	(1,159)	(1,510)
Inventories	290,257	349,315
Prepaid expenses and other	41,688	31,416
Property, plant and equipment	705,229	856,453
Land	64,772	68,133
Buildings	467,427	536,781
Machinery and equipment	1,104,592	1,250,288
Construction in progress	97,090	109,057
Accumulated depreciation	(1,028,652)	(1,107,806)
Investments and other assets	281,524	258,499
Investments	87,288	66,697
Intangible assets	54,347	47,526
Goodwill	76,914	78,389
Deferred income taxes	36,346	42,065
Other	26,629	23,822
Total assets	1,797,013	2,048,893
Liabilities		
Current liabilities	261,812	259,771
Short-term borrowings	13,500	23,007
Trade accounts payable	94,074	75,491
Accrued payroll and bonuses	38,041	43,485
Income taxes payable	24,968	38,315
Accrued expenses and other	91,229	79,473
Long-term liabilities	77,985	184,582
Bonds	—	99,813
Long-term debt	742	594
Termination and retirement benefits	67,843	75,789
Deferred income taxes	7,675	6,673
Other	1,725	1,713
Total liabilities	339,797	444,353
Equity		
Murata Corporation's Shareholders' equity	1,456,600	1,603,976
Common stock	69,444	69,444
Capital surplus	120,596	120,702
Retained earnings	1,336,208	1,493,697
Accumulated other comprehensive loss	(16,052)	(26,273)
Unrealized gains on securities	7,576	46
Pension liability adjustments	(16,995)	(21,574)
Foreign currency translation adjustments	(6,633)	(4,745)
Treasury stock, at cost	(53,596)	(53,594)
Noncontrolling interests	616	564
Total equity	1,457,216	1,604,540
Total liabilities and equity	1,797,013	2,048,893



Consolidated Statements of Income

(Millions of yen)

	FY2017 April 1, 2017 - March 31, 2018	FY2018 April 1, 2018 - March 31, 2019
Net sales	1,371,842	1,575,026
Cost of sales	926,929	974,808
Selling, general and administrative	187,602	231,822
Research and development	94,057	101,589
Operating income	163,254	266,807
Interest and dividend income	2,854	3,519
Interest expense	(581)	(422)
Foreign currency exchange loss	(7,299)	(2,401)
Gain on bargain purchase	6,442	—
Other - net	3,131	(187)
Income before income taxes	167,801	267,316
Income taxes	21,749	60,357
<Current income tax>	<48,538>	<65,036>
<Deferred income tax>	<(26,789)>	<(4,679)>
Net income	146,052	206,959
Less: Net income (loss) attributable to noncontrolling interests	(34)	29
Net income attributable to Murata Corporation	146,086	206,930



Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2017 April 1, 2017 - March 31, 2018	FY2018 April 1, 2018 - March 31, 2019
Net income	146,052	206,959
Other comprehensive income (loss), net of tax		
Unrealized gains on securities	1,449	320
Pension liability adjustments	(1,343)	(4,579)
Foreign currency translation adjustments	(1,925)	1,874
Other comprehensive income (loss)	(1,819)	(2,385)
Comprehensive income	144,233	204,574
Less: Comprehensive income (loss) attributable to noncontrolling interests	(20)	15
Comprehensive income attributable to Murata Corporation	144,253	204,559



Consolidated Statements of Shareholders' Equity

(Unit: shares, millions of yen)

	Number of common shares issued						Treasury stock	Controlling interests	Noncontrolling interests	Total equity
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive loss					
Balance at March 31, 2017	675,790,776	69,377	114,290	1,241,180	(14,219)	(55,809)	1,354,819	515	1,355,334	
Purchases of treasury stock at cost						(53)	(53)		(53)	
Disposal of treasury stock			6,272			2,266	8,538		8,538	
Net income				146,086			146,086	(34)	146,052	
Cash dividends				(51,058)			(51,058)		(51,058)	
Other comprehensive loss, net of tax					(1,833)		(1,833)	14	(1,819)	
Restricted stock compensation	23,505	67	34				101		101	
Equity transaction with noncontrolling interests and other								121	121	
Balance at March 31, 2018	675,814,281	69,444	120,596	1,336,208	(16,052)	(53,596)	1,456,600	616	1,457,216	
Cumulative effect adjustment from the adoption of Accounting Standards Update No. 2016-01				7,850	(7,850)		—		—	
Purchases of treasury stock at cost						(33)	(33)		(33)	
Disposal of treasury stock			3			1	4		4	
Net income				206,930			206,930	29	206,959	
Cash dividends				(57,579)			(57,579)	(6)	(57,585)	
Other comprehensive loss, net of tax					(2,371)		(2,371)	(14)	(2,385)	
Restricted stock compensation			103			34	137		137	
Equity transaction with noncontrolling interests and other				288			288	(61)	227	
Balance at March 31, 2019	675,814,281	69,444	120,702	1,493,697	(26,273)	(53,594)	1,603,976	564	1,604,540	

(Note) The Company implemented a three-for-one common stock split, effective April 1, 2019. Number of common shares was calculated on the assumption that the relevant stock split had been implemented at March 31, 2017.



Consolidated Statements of Cash Flows

(Millions of yen)

	FY2017 April 1, 2017 - March 31, 2018	FY2018 April 1, 2018 - March 31, 2019
Operating activities		
Net income	146,052	206,959
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	141,625	124,419
Losses on sales and disposals of property, plant and equipment	1,620	3,284
Provision for termination and retirement benefits, less payments	(771)	(504)
Deferred income taxes	(26,789)	(4,679)
Gain on bargain purchase	(6,442)	—
Changes in assets and liabilities		
Increase in trade notes and accounts receivable	(30,135)	(16,852)
Increase in inventories	(47,268)	(59,250)
(Increase) decrease in prepaid expenses and other	(11,970)	10,120
Increase (decrease) in trade notes and accounts payable	24,873	(24,140)
Increase in accrued payroll and bonuses	970	5,474
Increase in income taxes payable	17,784	13,521
Increase (decrease) in accrued expenses and other	10,433	(4,108)
Other - net	5,267	25,598
Net cash provided by operating activities	225,249	279,842
Investing activities		
Capital expenditures	(306,608)	(291,581)
Payment for purchases of marketable securities, investments and other	(13,016)	(25,792)
Maturities and sales of marketable securities, investments and other	57,131	28,853
(Increase) decrease in long-term deposits and loans	1,081	(1,169)
(Increase) decrease in short-term investments	98,424	(16,417)
Acquisition of businesses, net of cash acquired	(33,648)	(563)
Other - net	2,471	2,928
Net cash used in investing activities	(194,165)	(303,741)
Financing activities		
Net increase (decrease) in short-term borrowings	(32,618)	9,507
Proceeds from long-term debt	403	42
Repayment of long-term debt	(353)	(259)
Proceeds from issuance of bonds	—	99,813
Dividends paid	(51,058)	(57,579)
Other - net	41	22
Net cash used in financing activities	(83,585)	51,546
Effect of exchange rate changes on cash and cash equivalents	1,227	2,248
Net increase (decrease) in cash and cash equivalents	(51,274)	29,895
Cash and cash equivalents at beginning of year	239,184	187,910
Cash and cash equivalents at end of year	187,910	217,805
Additional cash and cash equivalents information		
Cash	168,902	181,956
Short-term investments	30,747	69,781
Short-term investments with the original maturities over 3 months	(11,739)	(33,932)
Cash and cash equivalents at end of year	187,910	217,805