



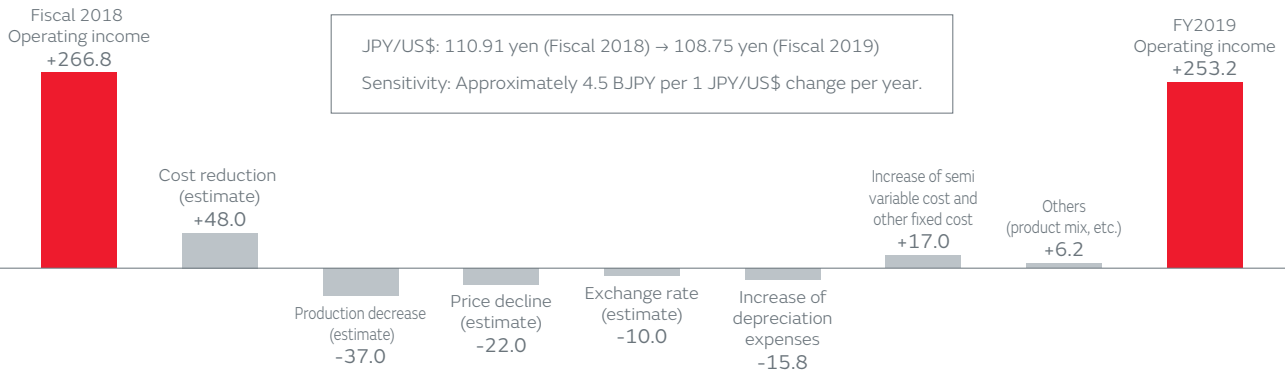
Analysis of operating results and financial situation

Review of fiscal 2019

In fiscal 2019, the demand for products related to 5G technology (5th Generation Mobile Communication System) has increased; however, the demand for components of wide-ranging uses indicated weakness, due partly to the adjustment of electronic equipment production and electronic component inventory. As for electronic components used for car electronics, while the number of automobiles sold decreased, the upward trend in the number of components installed per end product continued thanks to improvement in vehicle environmental friendliness and safety. Given such a background, net sales for fiscal 2019 decreased by 2.6% year on year to 1,534 billion yen, as a result of a decrease in the sales of multilayer resin substrates, lithium ion batteries and multilayer ceramic capacitors for smartphones, despite an increase in the sales of multilayer ceramic capacitors used for cellular phone base stations and car electronics.

Operating income was 253.2 billion yen, down 5.1%, income before income taxes was 254 billion yen, down 5.0%, and net income attributable to shareholders of the company was 183 billion yen, down 11.6% from the previous fiscal year. The decrease in profit was mainly caused by — despite the contribution to income made by cost reduction activities — negative factors including a drop in operating rates, a decrease in product prices, a rise in depreciation and amortization, and stoppages at our overseas production facilities due to the spread of COVID-19. ROIC (Return on Invested Capital) (pre-tax) is established as a priority management index in “Midterm Direction 2021.” ROIC (pre-tax) for fiscal 2019 was 16.1%, down 2.8 percentage points from the previous fiscal year. The decrease in ROIC (pre-tax) was due to a decrease in operating income, in addition to an increase in invested capital, with capital expenditures to expand buildings and production capacity in anticipation of higher demand for electronic components in the medium- to long-term.

Actual increases and decreases in operating income (Billion yen)



Sales by product

	FY2018 results	FY2019 results	Increase/decrease	Reasons for increase/decrease
Capacitors	574.2	559.4	-14.8 (-2.6%)	Sales of multilayer ceramic capacitors increased for uses in cellular phone base stations, driven by moves to introduce 5G systems and for uses in car electronics, but declined year on year overall due to weakness in demand for wide-ranging uses, affected by the adjustment of electronic equipment production and electronic component inventory.
Piezoelectric components	138.6	129.3	-9.3 (-6.7%)	Net sales dropped year on year as sales of SAW filters for smartphones fell due to falling prices.
Other components	392.2	363.0	-29.2 (-7.4%)	Although sales of inductors (coils) for smartphones and PCs increased, sales of lithium ion batteries for smartphones and power tools were sluggish, resulting in a year-on-year decline in sales.
Modules	466.7	478.6	+11.9 (+2.6%)	Sales increased year on year as RF modules for smartphones significantly grew despite a decrease in multilayer resin substrates and connectivity modules for high-end smartphones.

Sales by application

	FY2018 results	FY2019 results	Increase/decrease	Reasons for increase/decrease
Audiovisual	69.5	61.0	-8.5 (-12.2%)	Sales decreased compared to the previous fiscal year due to a decline in sales of connectivity modules and lithium ion batteries for digital cameras.
Communication	760.7	792.2	+31.5 (+4.1%)	Sales of multilayer ceramic capacitors for base station increased substantially. In addition, sales increased compared to the previous fiscal year due to an increase in sales of RF modules despite a decline in sales of multilayer resin substrates, lithium ion batteries and multilayer ceramic capacitors for smartphones.
Computers and peripherals	249.2	230.5	-18.7 (-7.5%)	Sales decreased compared to the previous fiscal year due to a decline in sales of lithium ion batteries and multilayer resin substrates for tablet PCs and sales of power supply modules for printers.
Automotive Electronics	257.1	263.5	+6.4 (+2.5%)	Sales increased compared to the previous fiscal year due to an increase in sales of multilayer ceramic capacitors for automobiles as the growing trend in the number of components continued, despite a decrease in the number of automobiles sold.
Home appliance and others	235.2	183.1	-52.1 (-22.1%)	Sales decreased compared to the previous fiscal year due to sluggish demand for multilayer ceramic capacitors owing to the effects of the inventory adjustments in electronic components, and sluggish sales of lithium ion batteries for power tools.

(Note) The above figures are based on our estimates.

Overview of Financial Conditions

	FY2018 results	FY2019 results	Increase/decrease	Reasons for increase/decrease
Assets	2,048.9	2,250.2	+201.3 (+9.8%)	Our total assets increased from the end of the previous fiscal year due to an increase in property, plant and equipment, due primarily to investment in buildings and investment aimed at boosting production capacity primarily for multilayer ceramic capacitors.
Liabilities	444.4	555.4	+111.1 (+25.0%)	Our total liabilities increased from the end of the previous fiscal year mainly due to the issuance of corporate bonds to raise funds for capital expenditures in anticipation of higher demand for electronic components in the medium- to long-term and the recording of the operating lease liabilities.
Equity	1,604.5	1,694.8	+90.3 (+5.6%)	Equity increased from the end of the previous fiscal year, mainly due to an increase in retained earnings. Shareholders' equity ratio decreased by 3.0 percentage points to 75.3%.

Cash Flows

	FY2018 results	FY2019 results	Increase/decrease	Reasons for increase/decrease
Net cash provided by operating activities	279.8	350.3	+70.5 (+25.2%)	Net cash provided by operating activities was 350.3 billion yen. Negative factors — an increase of 14.5 billion yen in trade notes and accounts payable and a decrease of 9.6 billion yen in income taxes payable — were more than offset by net income as a source of cash flow of 183 billion yen and depreciation and amortization of 140.3 billion yen.
Net cash used in investing activities	-303.7	-284.4	+19.3 (+6.4%)	Net cash used in investing activities was 284.4 billion yen. There were cash outflows due to 285.9 billion yen in payment for purchases of property capital expenditures, mainly for buildings and investments aimed at boosting production capacity, and 27 billion yen in payment for purchases of marketable securities, investments and other.
Net cash used in financing activities	51.5	17.7	-33.9 (-65.8%)	Net cash provided by financing activities was a positive 17.7 billion yen. Dividend payments of 59.9 billion yen were more than offset by increases in the issuance of corporate bonds to fund capital expenditures and short-term borrowing.

Overview of Segment Information

		FY2018 results	FY2019 results	Increase/decrease	Reasons for increase/decrease
Components	Net sales	1,140.0	1,098.3	-41.7 (-3.7%)	Net sales and segment income both decreased due to a decline in sales of multilayer ceramic capacitors, lithium ion batteries and SAW filters as well as an impairment loss on lithium ion batteries that was recorded in the second quarter.
	Segment income	312.1	249.7	-62.5 (-20.0%)	
Modules	Net sales	466.7	478.6	+11.9 (+2.6%)	Net sales and segment income both increased due to an increase in sales of products such as RF modules, despite a decline in sales of multilayer resin substrates and connectivity modules.
	Segment income	14.5	49.4	+35.0 (+241.6%)	
Others	Net sales	102.4	59.2	-43.2 (-42.2%)	—
	Segment income	10.6	5.7	-4.9 (-46.0%)	
Corporate and eliminations	Net sales	-134.1	-102.1	+31.9 (—)	—
	Corporate expenses	-70.4	-51.6	+18.8 (—)	
Consolidated	Net sales	1,575.0	1,534.0	-41.0 (-2.6%)	—
	Operating income	266.8	253.2	-13.6 (-5.1%)	



Consolidated Balance Sheets

(Millions of yen)

	End of FY2018 March 31, 2019	End of FY2019 March 31, 2020
Assets		
Current assets	933,941	1,027,227
Cash	181,956	239,656
Short-term investments	69,781	106,950
Marketable securities	27,364	29,554
Trade notes receivable	4,053	100
Trade accounts receivable	271,566	281,958
Allowance for doubtful notes and accounts	(1,510)	(1,026)
Inventories	349,315	334,408
Prepaid expenses and other	31,416	35,627
Property, plant and equipment	856,453	1,002,210
Land	68,133	72,707
Buildings	536,781	633,041
Machinery and equipment	1,250,288	1,310,534
Construction in progress	109,057	133,148
Accumulated depreciation	(1,107,806)	(1,182,318)
Operating lease right-of-use assets	—	35,098
Investments and other assets	258,499	220,793
Investments	66,697	49,059
Intangible assets	47,526	38,576
Goodwill	78,389	73,032
Deferred income taxes	42,065	42,220
Other	23,822	17,906
Total assets	2,048,893	2,250,230
Liabilities		
Current liabilities	259,771	284,300
Short-term borrowing	23,007	51,000
Trade accounts payable	75,491	79,330
Accrued payroll and bonuses	43,485	45,374
Income taxes payable	38,315	28,294
Accrued expenses and other	79,473	73,611
Current operating lease liabilities	—	6,691
Long-term liabilities	184,582	271,123
Bonds	99,813	149,764
Long-term debt	594	207
Termination and retirement benefits	75,789	84,602
Deferred income taxes	6,673	5,644
Noncurrent operating lease liabilities	—	28,408
Other	1,713	2,498
Total liabilities	444,353	555,423
Equity		
Murata Corporation's Shareholders' equity	1,603,976	1,694,104
Common stock	69,444	69,444
Capital surplus	120,702	120,775
Retained earnings	1,493,697	1,616,783
Accumulated other comprehensive loss	(26,273)	(59,335)
Unrealized gains on securities	46	(61)
Pension liability adjustments	(21,574)	(25,999)
Foreign currency translation adjustments	(4,745)	(33,275)
Treasury stock, at cost	(53,594)	(53,563)
Noncontrolling interests	564	703
Total equity	1,604,540	1,694,807
Total liabilities and equity	2,048,893	2,250,230



Consolidated Statements of Income

(Millions of yen)

	FY2018 April 1, 2018 - March 31, 2019	FY2019 April 1, 2019 - March 31, 2020
Net sales	1,575,026	1,534,045
Cost of sales	974,808	952,583
Selling, general and administrative	231,822	229,587
Research and development	101,589	102,486
Impairment losses on goodwill	—	3,934
Other operating income	—	7,792
Operating income	266,807	253,247
Interest and dividend income	3,519	4,017
Interest expense	(422)	(512)
Foreign currency exchange loss	(2,401)	(3,614)
Other - net	(187)	894
Income before income taxes	267,316	254,032
Income taxes	60,357	71,050
<Current income tax>	<65,036>	<69,127>
<Deferred income tax>	<(4,679)>	<1,923>
Net income	206,959	182,982
Less: Net income (loss) attributable to noncontrolling interests	29	(30)
Net income attributable to shareholders of the company	206,930	183,012



Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2018 April 1, 2018 - March 31, 2019	FY2019 April 1, 2019 - March 31, 2020
Net income	206,959	182,982
Other comprehensive income (loss), net of tax		
Unrealized gains on securities	320	(107)
Pension liability adjustments	(4,579)	(4,425)
Foreign currency translation adjustments	1,874	(28,588)
Other comprehensive income (loss)	(2,385)	(33,120)
Comprehensive income	204,574	149,862
Less: Comprehensive income (loss) attributable to noncontrolling interests	15	(88)
Comprehensive income attributable to Murata Corporation	204,559	149,950



Consolidated Statements of Cash Flows

(Millions of yen)

	FY2018 April 1, 2018 - March 31, 2019	FY2019 April 1, 2019 - March 31, 2020
Operating activities		
Net income	206,959	182,982
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	124,419	140,267
Losses on sales and disposals of property, plant and equipment	3,284	2,477
Impairment losses on long-lived assets	25,511	23,756
Impairment losses on goodwill	—	3,934
Provision for termination and retirement benefits, less payments	(504)	2,719
Deferred income taxes	(4,679)	1,923
Changes in assets and liabilities		
(Increase) decrease in trade notes and accounts receivable	(16,852)	(14,481)
(Increase) decrease in inventories	(59,250)	8,680
(Increase) decrease in prepaid expenses and other	10,120	(4,185)
Increase (decrease) in trade notes and accounts payable	(24,140)	4,492
Increase (decrease) in accrued payroll and bonuses	5,474	2,209
Increase (decrease) in income taxes payable	13,521	(9,631)
Increase (decrease) in accrued expenses and other	(4,108)	(690)
Other - net	87	5,882
Net cash provided by operating activities	279,842	350,334
Investing activities		
Capital expenditures	(291,581)	(285,935)
Payment for purchases of marketable securities, investments, and other	(25,792)	(27,018)
Maturities and sales of marketable securities, investments, and other	28,853	30,666
(Increase) decrease in long-term deposits and loans	(1,169)	5,913
(Increase) decrease in short-term investments	(16,417)	(10,781)
Acquisition of businesses, net of cash acquired	(563)	(479)
Other - net	2,928	3,203
Net cash used in investing activities	(303,741)	(284,431)
Financing activities		
Net increase (decrease) in short-term borrowing	9,507	27,993
Proceeds from long-term debt	42	98
Repayment of long-term debt	(259)	(211)
Proceeds from issuance of bonds	99,813	49,889
Dividends paid	(57,579)	(59,926)
Other - net	22	(193)
Net cash used in financing activities	51,546	17,650
Effect of exchange rate changes on cash and cash equivalents	2,248	962
Net increase (decrease) in cash and cash equivalents	29,895	84,515
Cash and cash equivalents at beginning of year	187,910	217,805
Cash and cash equivalents at end of year	217,805	302,320
Additional cash and cash equivalents information		
Cash	181,956	239,656
Short-term investments	69,781	106,950
Short-term investments with the original maturities over three months	(33,932)	(44,286)
Cash and cash equivalents at end of year	217,805	302,320