Financial Results for FY2013 Presentation Q&A

Q: What are the production capacity plans and production plans for your major products?
A: Production capacity for MLCCs will be increased continually with an emphasis on high-end such as small-sized hi-capacitance products and products for automotive applications. The machine for low-end products will replace high-spec machine for high-end products. Our overall capacity is therefore expected to remain at the prior-year level.
Production capacity for SAW filters will be increased by 10 to 15% in the year, since these products are successful, especially in China. We aim to achieve a company-wide capacity utilization ratio of 100% for the standard 20-day operation month in both the first and second halves of the year. MLCCs will use 90% of its 27-day operation month equipment capacity during this fiscal year.

Q: What developments do you expect in order intake in 2014F?
A: In March 2014, order intake was as strong as a year earlier, partly due to bulk orders, especially those for China customers. We expect order intake will follow our net sales plan in April and afterwards.

Q: How have the production capacity utilization ratio and inventories developed from 2013F Q4 to 2014F Q1?
A: The inventories figure at the end of March includes Toko. Inc. Excluding the new subsidiary's effect, inventories declined slightly from the end of December 2013 to the end of March 2014. Toward the end of June, we are planning to rebuild inventories to accommodate the expected demand peak. The company-wide capacity utilization ratio for Q4 was 98% compared with the planned figure of 95%. This parameter is expected to rise to 100% in Q1 partly due to the planned buildup of inventories. At 85%, the MLCC capacity utilization ratio for Q4 was just as planned. For Q1, we aim to achieve 90% in this regard — and full operation for leading-edge products in particular, which suffer from tight supply.

Q: Under the plan for the current fiscal year, earnings will not grow as much as one would imagine from the forecast increase in net sales in the 2nd half over the 1st half. What is the reason?
A: An increase in depreciation and amortization and the product mix will have a major impact. Another reason is that the increase in inventories in the 1st half and the consumption of inventories in the 2nd half will prevent the operation ratio from varying as significantly as net sales.

Q: The graph in the “Breakdown of Operating Income Changes” shows the depreciation expenses for 2014F as a positive factor compared with 2013F. On the other hand, “Projected Financial Results for FY2014” indicates a higher figure for depreciation and amortization, which will have a negative impact on net income. Why the difference?
A: In 2014F, the depreciation expenses including Toko will be higher than the prior-year level, but the corresponding figure for Murata alone will decline. The depreciation figure in the graph is our forecast for Murata alone.

Q: How will the depreciation expenses of intangible assets of 3.2 billion-yen from Toko acquisition in 2014F be posted?
A: The same amount (a fourth of the above-mentioned amount) will be recognized for each quarter. As Toko became a subsidiary, the fair values of the company’s assets and liabilities were calculated. As a result, an approximate total of 20 billion yen in intangible assets was recognized in the consolidated financial statements. This will be depreciated in 6 to 8 years. The depreciation amount will be 3.2 billion yen for 2014F and will range from 2.8 to1.5 billion yen thereafter. In addition, Toko has approximately 8.7 billion yen in goodwill, which will remain in the balance sheet.

Q: In 2014F, you expect to achieve higher growth in net sales from automotive electronics than from communication. Why?
A: We expect an increase in demand for electronic components — MLCCs in particular — used in automobiles.