

First Quarter of FY2020 Presentation Q&A

(20Q1 refers to the first quarter of FY2020, 20F1 refers to the first half of FY2020, and 20F refers to FY2020.)

[20Q1 results, 20F forecast]

Q: At the beginning of the fiscal year, you indicated the number of sets to be used as a premise for the financial result forecast. What do you think at present?

A: One reason behind having not revised the projection is that the outlook for the number of sets has not changed considerably. As indicated at the beginning of the fiscal year, we expect smartphones sales to decline about 10% year-on-year, and automobiles sales to decrease roughly 20% year-on-year.

Q: Production in 20Q1 exceeded the initial assumption. How are you comparing production and sales in 20Q2 with the initial assumptions? How will the utilization rate for capacitors change?

A: As a result of the production increase in 20Q1, production in 20Q2 will fall slightly from the initial assumption and will be almost on the same level as 20Q1. Although sales for 20Q1 are slightly below the initial assumption, we envisage recovering in the fall during 20Q2 and expect to achieve the initial forecast in 20F1. The utilization rate for capacitors is at 85% to 90% in 20Q1 and will be at 90% to 95% in 20Q2 and at 85% to 90% in 20F1, which is unchanged from the initial assumption.

Q: Production output in 20Q1 was higher than the initial assumption. What is the impact on profit?

A: We do not have those numbers because the financial result forecast is semiannual, not quarterly. I would suggest that you simulate it, based on the production output.

Q: What is the growth rate of sales by product from 20Q1 to 20Q2?

A: As we have not revised our forecast, I would suggest that you can get an idea by seeing the difference between the 20F1 forecast and the 20Q1 results. We envisage that, compared to 20Q1, modules and batteries will increase, and capacitors will also rise slightly.

Q: On what grounds do you think the company plan for 20Q2 is achievable?

A: July orders increased 35% to 40% from the previous month, and recovery can be detected in almost all applications. Automobiles, which fell considerably in 20Q1, are also increasing. We expect to achieve both sales and profit.

Q: What is the trend or change in orders received monthly?

A: Looking at orders received on a month-on-month basis, they decreased 5% to 10% in May, rose 10% to 15% in June and surged 35% to 40% in July.

Q: What is the current status of distribution inventory?

A: Although we struggled to clear MLCC's distribution inventory destined for automobiles, the situation is returning to healthy levels at last. We figure that this improvement is one of the factors that expanded orders received in July. Our view is that distribution inventory destined for other applications, including smartphones, returned to healthy levels before that.

Q: Is there any change to the projection concerning capital investment?

A: When making the projection at the beginning of the period, the impact of COVID-19 was factored in to some extent. We are thinking that most of the 200 billion yen will be implemented according to the projection. As for buildings, construction is a little behind schedule due to COVID-19, and some projects will be delayed into 20F2. It is assumed that the completion of a project in Minato Mirai will be slightly delayed.

Q: What is the trend in sales for base stations?

A: Sales declined in 20Q1 because components were stockpiled in 19Q4 in anticipation of the impact of COVID-19. Furthermore, we find that the 5G strategy is slightly changing in China, which is ahead of other countries, considering the total number of subscribers. When the antenna configuration of base stations is simplified, the components will also be affected by that change. Although China is ahead of other countries, we expect that base stations in Europe will also expand in the future.

[Modules]

Q: Regarding RF modules, what are the needs of customers around the world? What are opportunities in the future?

A: With COVID -19 spreading, the need for telecommunications is expanding, and I have the sense that the ratio of 5G will be higher than initially assumed. The shift to 5G is also accelerating the modularization of existing LTE and others, and the need to respond to the shift is arising. Moreover, once 5G matures from 2021 onwards, required specifications for filters will be stricter. We intend to respond to the change by deploying I.H.P. SAW an evolved version of SAW filter and XBAR.

Q: I disassembled smartphones of Greater China manufacturers, and I was not able to clearly identify any module with the Murata logo on it. Are you losing to competition in the field of modules? What is your plan for the timeline of 20F2 or next year?

A: When 5G was launched, we were a little behind competition in some of the characteristics for some time. We believe that we were able to catch up when the second or third models were introduced.

Q: When will a 5G that adopts millimeter waves be mainstream? What are the technical advantages of antenna-integrated modules?

A: The replacement cycle of smartphones has changed from two years to four to five years, and we expect that sales of millimeter wave-compatible models will increase from around this fall. There will be a limited number of regions in which the millimeter waves can be used, but we project that such smartphones will be introduced ahead of the times in more cases. In antenna-integrated modules, the ability to lead the competition depends on the ability to make proposals that reduce the number of units. Antenna technology has become important, and we are proposing models that can cover 360 degrees with 2 units. We think that three units will be employed in a great number of cases when millimeter waves are introduced, and we intend to propagate a proposal that reduces the number of units from 2021 onwards.

Q: What technology in antenna design will be needed for covering 360 degrees?

A: The beamforming technology is required. Control of length and electrical conductivity rates in particular will be required. In addition, as that wave is a signal with a strong tendency to go in a straight line, the degree of flexibility of installation to point the antenna to not only one but also two directions will be crucial.

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