

Third of FY2021 Presentation Q&A

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[21Q3 Results and Outlook]

Q. Please tell us about the production output in Q3 results and Q4 projection FY2021.

A. The actual production in Q3 was JPY486 billion, and we estimate the production amount for Q4 at JPY409 billion.

Q. What does happen to your production output estimate in response to the upward revision of JPY40 billion in July forecast sales? Also, was the gradual decline in selling prices reflected in these forecasts to a significant degree?

A. Compared to the July forecasts, the expected increase in sales is up JPY40 billion, while the projected increase in production is up JPY85 billion, which is bigger than the revised increase in sales. Also, compared to the July forecasts, the impact of selling price reductions has been added as a factor to boost profit by JPY37 billion. For details, please see page 23 of the presentation material.

Q. At the Q2 financial results briefing, it was explained that there was some weakness in the current situation, and that you were still assessing how you should deal with the production output. Financial results for Q3 were very firm. Please tell us where there were changes by application and area.

A. Sales of products for Computers and Peripherals, which we had expected to decline, were still strong in Q3, and orders from distributors were strong. In addition, sales and production increased due to the foreign exchange effects and the fact that the prices have not fallen that much. At the moment, although there are still some concerns about the supply chain constraints, final demand is strong, and we will continue to produce our products well in Q4 to prepare for demand in the next fiscal year and beyond and build up necessary inventories.

Q. In the presentation material, on page 18, there are the projection of demand. The projected demand are changed from the July forecasts. How can we interpret the difference between these changes and sales plan changes? The way I think about the supply chain is changing. I am aware that this change is heading toward holding inventories while including the perspective for BCP. I think the relationship between the production volume of sets and demand for components that your Company is predicting will break down for a while, is that correct?

A. In first half of FY2021, there was an imbalance between the number of products we expected to be in actual demand and the orders we actually received for our products. As can be seen from the BB ratio, since later half of FY2021, orders have been pegged at around actual demand. And this situation is expected to continue for some time since the inventory levels held by customers for BCP remain at the current level. Moreover, taking into account the foreign exchange rates and the increase of ASP, I think that the revision to the sales forecast works positively, contrary to the movement in the number of sets. In the case of PCs, we had expected the market to decline slightly in the July forecasts, but due to the continuation of stay-at-home demand, we are aware that we have received the same level of orders as in the previous fiscal year.

Q. Are sluggish sales the factor behind the prolonged inventory adjustment of Greater China smartphones?

A. I don't see a situation that the inventories of components are increasing in the market, so I see that they are matching actual demand. I believe that the current environment is one in which smartphone sales are actually continuing to decline due to worsening business confidence. We had expected the timing of the release of new smartphone models to be in January or later, but it has been delayed a bit, and we believe that new models will be launched before summer. We estimate the assumption that demand will also increase at that time.

Q. In your Mid-term Direction, you plan to increase sales by 5% per year toward FY2024. What changes do you envision at present in layer 1(Components) and layer 2(Devices/modules) toward the next fiscal year?

A. We believe that we can expect sales growth of about 5% in 2022, as we aimed for in the Mid-term Direction 2024. Inventory levels have been rising a bit at our customers, and the level for our performance launch pad has risen because of our good business performance in FY2021. However, for layer 1, we would like to manage to increase 10% on a process load basis. For layer 2, there will be big opportunities when there is a major platform change, for example, when 5G millimeter waves become mature, and these will be opportunities for major replacements of the market shares. Such opportunities are likely to arise in the Greater China market in FY2022, and we hope to increase our market share there. And we believe that it will lead to an overall growth of more than 5%.

Q. For the next fiscal year, you foresee growth in capacitors and other components, but you see only a slight improvement in the modules segment, and you don't see the segment as a major growth driver, is that right?

A. That's right.

[Capacitors]

Q. Sales for automotive electronics in Q4 FY2021 are expected to decrease 10% QoQ. What is your assumption for automobile production? Also, could you tell us if you have revised the prices of capacitors for automobiles since January? You expected that the impact of the QoQ selling price reduction at JPY5 billion, which seems to be small. Let me make sure that the prices have not gone down that much.

A. We expect that sales for automobiles in Q4 FY2021 will decrease QoQ partly because there is a seasonal factor of a low production period for automobiles, in addition to the restrictions on output due to the semiconductor shortage. We foresee a recovery in sales for automobiles in the spring. We shifted in January to the new prices for Tier 1 automotive customers due to an annual price revision. As a result of negotiations with our major customers, we conducted price cuts to a certain extent, but the reductions were more modest than what we had expected, including the positive effect of the weaker Japanese yen. We expect that the production volume of sets to be manufactured by customers in Q4 will remain largely unchanged from Q3. We believe that sales to the automotive industry in Q4 will be based on actual demand. The reason for the slight drop in sales in Q3 was due to the supply chain constraints.

Q. Could you tell us about the monthly order trends for capacitors? Also, at the Q2 financial results briefing, I think you were looking at a slight drop for Q4 FY2021, but now you are planning to continue with a high level of utilization, and I think this is the reason for the upward revision. How did you come to think about this?

A. In Q3 of FY2021, orders for capacitors were down 5% to 10% MoM in October, up 5% to 10% MoM in November and up 0% to 5% MoM in December. We will refrain from commenting on orders received in January due to the uncertainty of the figures in the progress month. We believe that the market environment for capacitors has not changed significantly in Q4 compared to Q2 financial results briefing. There is a slight prolonged adjustment of smartphone production in Greater China, but the other markets are not in bad conditions, considering the seasonality. We believe that we should prepare for production and supply when we look at the expansion of demand, the recovery from COVID-19, and the conclusion of the semiconductor constraints in the next year and beyond, so we are building up inventories and taking measures for the next fiscal year. We will be affected by the trends in the semiconductor shortage and other factors, but we hope to be well prepared for the coming year.

Q. The question is to confirm what capacitors will be looking like for the next fiscal year, in the sense that I want to consider the growth rate of capacitors. Regarding the upward swing in production output compared to the July forecasts, are you planning to build up inventories to cover the increase in sales due to the past buildup of inventories, orders from distributors, and strong demand for high-end smartphones? Or are you thinking that you will continue production at a high level with expected fairly strong inquiries for April to June?

A. Regarding capacitors, if you take into account seasonality and other factors, we don't feel that the condition is much bad. Currently, our plants continue to operate at full capacity and build up inventories. We are trying to prepare a firm supply system since demand from end customers is quite strong for various applications, and that if the current production constraints on customers, which were caused by the semiconductor shortage and some other factors, are to be resolved, demand will recover to a certain degree, and that there will be applications that will trigger a surge in demand. In addition, for vehicles, demand for products with large sizes and large production loads is increasing, so we would like to prepare solid inventories and have a stable supply system in place for such products, for which we have difficulty in responding quickly to the rapid increase in demand. Taking all of the above into consideration, we would like to continue full production and build up a certain amount of inventories for capacitors.

Q. You have increased a considerable amount of operating profit from the buildup of inventories during the current fiscal year, but do you think that the market environment will allow capacitors to increase sales and profits in the next fiscal year as well?

A. It is true that there was a certain amount of inventory buildup, including stock for BCP, in the demand seen in first half of FY2021. However, in later half of this year, such demand has largely disappeared, and we believe that we are now receiving orders in line with actual demand. Our performance has been supported by the fact that we are able to maintain ASPs at certain levels because in the product mix, the ratio of products with relatively high unit prices, such as those for automobiles, has been increasing. As for the outlook for the next fiscal year, we cannot say for sure because we have not yet formulated our budget at this stage. However, we will take advantage of the recovery in demand from the production constraints caused by COVID-19 and the semiconductor shortage, so that we will be able to meet the expectations of our stakeholders.

Q. You forecast that sales of capacitors for the current fiscal year are expected to increase 22% YoY. Could you give us some hints as to what kind of growth or sales we should expect in the capacitor market over the medium term?

A. We plan to continue to increase production capacity by about 10% per year on a production capacity load basis for the time being, as we have already indicated. We will continue corporate management to allocate our capabilities and resources to improve the portfolio within capacitors. With regard to the prices, companies in the same industry are also aggressively expanding their capacity, and we assume that competition will continue to be fierce over the medium to long term, so we believe that we should implement certain price revisions to maintain and strengthen our position, and as a result, the sales amount will be determined. We would like to improve our portfolio and bring it in good shape with considering price reduction.

[Modules]

Q. What is your outlook for your share in the RF module for high-end smartphones for the next fiscal year? Also, please tell us how much you are looking at the growth of the Modules segment as a whole in the next fiscal year.

A. We can't go into details about individual customers, but if you look at the situation of adoption, things will improve a little from FY2021, but we haven't been able to raise the level to that we had envisioned. For high-end smartphones, we need to win over certain competitors in terms of any features, but this year we lose a little more than we win. Partly we were not able to finish our products with the full features as we had projected, and we think that replacing many modules was a little bit difficult for FY2022 because there will be no major platform change in the next fiscal year after the very bad situation in FY2021. Aside from high-end smartphones, we expect to see significant demand for smartphones in Greater China before the summer, when MediaTek's new platform will be launched. We would like to take up that demand firmly.

Q. Please let us know if there are any changes in MetroCirc™ that we can expect for the coming year and beyond. Also, regarding the expansion of MetroCirc™ customers, can we expect that they will expand from the next fiscal year onward by lowering the unit prices?

A. Basically, we think the number of adoptions will increase as millimeter waves will increase and the UWB function will be introduced. Also, we have made a lot of self-help effort to reduce the costs and improve the features and I believe that the product is going to be used more widely than now. Although the unit prices are on a slight downtrend, we expect the number of adoptions to increase considerably, and we hope to capture the needs for 5G millimeter waves and UWB. Also, we think that the customer base is gradually spreading by lowering the unit prices.

Q. About the recent 5G trends, I understand that there are some concerns about the spread of 5G in the US due to the problem of radio interference at base stations and that the performance of RF modules is now questioned. On the device side, Sub6 has a narrow band area and there are interference problems, so I believe that this area needs a lot of filter and power amplifier-related technologies. How do you see such a change in 5G hardware will appear in the future, or are the present problems so serious that 5G will be toned down a bit, or will you foresee a bit of a change with the technologies?

A. We take the issue of interference with aircraft somewhat seriously, but we are aware that they have not yet identified a concrete technical cause. We think that we will need to use a very wide bandwidth with a lot of variation, so the performance of filters and power amplifiers will be required to be very high for devices in the future. We had already taken this situation into consideration to a certain extent based on the degree of frequency congestion, so we have been strengthening our efforts to gain an advantage in filter technology and other areas. We think that our investment in elemental technologies will be an opportunity to obtain an advantageous position.

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