

Second Quarter of FY2022 Presentation Q&A

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Questioner1

Q. 【Group-Wide】 Could you share with us your sense of how the inventory level of automotive customers will trend toward the end of March 2023?

A. We expect that the parts inventory for the business continuity plan (BCP) of automotive customers will hardly level down by the end of March 2023. We figure that the appropriate inventory level of customers has risen by about a month's worth from the pre-pandemic years. However, we anticipate this level will be maintained for the time being.

Q. 【Components】 Could you let us know the results of the operation rate of capacitors for the second quarter of the current fiscal year and your forecast for the rate for the second half of FY2022? Also, could you indicate your plan of how to reinforce the production capacity of capacitors for the future.

A. The operation rate was 85% to 90% in the second quarter. We also plan similar levels for the second half of FY2022. There is a medium-term policy on the pace of reinforcing production capacity. Accordingly, we plan an annual 10% or so increase on a capacity load basis as set in the initial plan of FY2022.

Q. 【Group-Wide】 Could you tell us about the current environment for a price reduction? Will the recent fall in demand affect the price decrease?

A. We have felt that pressure on prices is slightly stronger than in FY2021 partly due to the easing of the supply-demand situation, but overall, we expect prices to fall more moderately than planned at the beginning of FY2022. When it comes to capacitors, for the consumer market including smartphones, we have started seeing cases where we receive stronger demand from customers for price reductions than in the first half of FY2022 against the background of a deterioration in the market conditions. On the other hand, about capacitors for mobility and servers, there is not such strong demand as for the consumer market although this depends on factors including the competitive environment. Especially, for mobility, supply is given priority over price for growth in the future.

Q. 【Group-Wide】 Could you share with us the prospects for incoming orders and net sales in the January-to-March period of 2023? When do you expect demand to start recovering?

A. We think that our company tends to be affected significantly by the impact of a deterioration in macroeconomic fundamentals since we have a number of products with relatively high market shares, not just capacitors. Given our company's forecast and customers' production plans, we feel it will be hard to expect demand to recover by the end of FY2022. For the moment, we expect demand to gradually improve in FY2023 when the situation with the supply chain of automotive semiconductors will become better. We anticipate the deterioration in the supply-demand environment will hit the bottom during the fourth quarter of FY2022.

Q. 【Group-Wide】 Do I understand that you are expecting demand to recover in March or April 2023?

A. Yes.

Questioner2

Q. 【Group-Wide】 Have sales per unit of high-end smartphone kept increasing year on year like in the past years?

A. We suppose that the increase is marginal as opposed to the whole company's sales including high-frequency modules, multilayer resin substrates and capacitors.

Q. 【Devices/modules】 Could you give us some insights into your current efforts to mass-produce XBAR and induce customers to adopt your product? Also, what is your assumption of how much it will contribute to the company's earnings for the next fiscal year?

A. As customers will decide whether or not to adopt it, we cannot make any quantitative assumption at the moment. At the prototype level, we have found the characteristics extremely favorable, and engineers are working hard to have these excellent results lead to mass production with a high yield. We plan to first start mass production on a small scale by the end of FY2023 and then to commence full-scale mass production from FY2024. We believe that XBAR will be able to demonstrate its superiority since communication standards, such as for Wi-Fi® and 5G, are destined to demand more advanced technical characteristics.

Q. 【Components】 Could you let us know your forecast for the production output of capacitors from the third quarter of the current fiscal year onwards? Do you plan to maintain the same level of production output as in the second quarter?

A. We plan to produce in a way that meets net sales from the third quarter onwards. We do not consider making a significant increase or decrease from current inventory levels. We plan to have an operation rate of 85% to 90% for capacitors as a whole, in the case of setting 27 days a month as 90% utilization. However, the production status varies depending on the applications.

Questioner3

Q. 【Components】 Could you share with us the monthly trend of orders that you received for capacitors in the second quarter?

A. On a month-on-month basis, orders dropped approximately 5 to 10% in July, increased in August, and slightly fell in September. The trend for high-end smartphones in October is in line with the seasonal change. If you take a look at capacitors as a whole, there are no signs of a big change from the situation of the second quarter.

Q. 【Components】 Are there any moves by Taiwanese or Chinese competitors to reduce the price concerning capacitors for the consumer market?

A. Some Chinese competitors have started pricing competition in the consumer market. Therefore, we are closely monitoring their moves. On the other hand, we speculate that Taiwanese competitors will move to change their product mix. For our part, we are considering a pricing strategy of making a sharp distinction between portions for which we respond to pricing competition and others for which we do not do so for the consumer market. At the moment, it seems to us that Taiwanese competitors are not considering reducing the price of capacitors drastically.

Q. 【Components】 Are there any trends by Taiwanese competitors to shift from general-purpose products to high-value-added ones?

A. Yes.

Q. 【Devices/modules】 Could you give us some insight into your business strategy for high-frequency modules for FY2023? Also, will a technological trend in which XBAR is actively adopted appear in the future?

A. We are pushing forward with separate efforts for the mid-to-long term and for a short-term increase in market share. To increase market share in the short term, we are working to the extent that we can differentiate our products without using XBAR. In our view, the occasion when XBAR will demonstrate its superiority will be a stage in which the current platform advances a little to make the technological difficulty level extremely high. We assume that such opportunities will appear from FY2023 to FY2024. At that stage, we also assume there will be an occasion that necessitates the provision of XBAR. At highly difficult bands even in the Sub6 range, it is necessary to use two filters in normal cases. However, we expect that the use of XBAR will require only one filter, resulting in making it possible to simplify the circuit. To this end, we are thinking of highlighting this superiority to users. We assume that a full-scale change to the platform will happen in 2024.

Questioner4

Q. 【Group-Wide】 On page 21 of the material for the Earnings Release Conference, the number of units of smartphones in FY2022 is forecast to be down 20% from the previous year on the basis of parts that customers purchase. Are you anticipating a significant decrease mainly because customers will reduce their parts inventory or because they have already purchased too much in the previous year?

A. As the premise, we have the feeling that the sales quantity itself has plunged due to a deterioration in the macroeconomy. Although it seems customers are returning their inventory level to normal to a slight extent, our understanding is that basically, as shown in the figure, demand itself has fallen considerably.

Q. 【Group-Wide】 On page 23 of the material for the Earnings Release Conference, the sales forecast by application shows a 9% or so decrease in communication for the second half from that of the first half. Could you explain why?

A. Parts of high-end smartphones started to be taken in in the first half, so we expect the usual seasonality. On the other hand, although demand for parts usually rises in the second half of most years as customers in South Korea and Greater China launch new models, we assume that demand for parts will not be so strong as in the previous year, and think that a demand recovery is highly unlikely within FY2022. Consequently, we forecast a sales decrease from the first half.

Q. 【Group-Wide】 Could you explain why mobility will increase by 17% or so in the second half, compared with the first half?

A. Final demand is so strong that we assume that the quantity of automobiles produced will rise as the normalization of the semiconductor supply chain for automobiles gradually progresses toward the second half. Consequently, we plan a sales increase from the first half.

Q. 【Components】 Do I understand that your idea is that there is a favorable prospect of winning orders for mobility, mainly capacitors, and strong demand for production capacity reinforcement due to the trends of automotive electrification and usage of more electronic parts?

A. Yes.

Questioner5

Q. 【Group-Wide】 Inventories for the second quarter increased about 20 billion yen from the previous quarter. Could you let us know the breakdown such as the impact of exchange rates?

A. There are increases of about 10 billion yen in finished goods and work in process, and about 10 billion yen in raw materials. The effect of an exchange rate revaluation of finished goods and work in process is about 2 billion yen or so. Amid the globally mounting risk regarding procuring raw materials, the increase is due to the impact of raising the level of inventories that we hold concerning parts and materials that are important to us.

Q. 【Group-Wide】 Do I understand that inventories as of the end of September 2022 are not at an excessive level but an appropriate level?

A. We regard it to be within appropriate levels. We do not plan to increase inventories significantly in the second half but plan production that aligns with the level of net sales.

Q. 【Group-Wide】 On page 24 of the material for the Earnings Release Conference, a profit-increasing factor of 15 billion yen from a selling price decline is included in Profit Change Factors. Could you explain the background?

A. Usual price decline are shown in profit-decreasing factors. However, regarding some lithium ion secondary batteries and connectivity modules, we passed increases in their material prices on to our selling prices to customers. That impact is expressed as profit-increasing factors. We do not disclose the breakdown of each individual amount.

Q. 【Components】 What kind of pricing policy for capacitors are you thinking of when the yen is in a period of depreciation in the currency market?

A. Current average unit prices have remained slightly above those of the previous year. This tendency is partly due to the effect of the weak yen and slightly strong demand for price reductions for the consumer market. But prices of products for mobility are aided by their stability. We are not considering at this point to adopt an aggressive pricing policy by leveraging the weak yen.

Questioner6

Q. 【Group-Wide】 You revised the capital investment plan for FY2022 downward by 30 billion yen. To what extent will the production capacity reinforcement be pushed down? Also, you cited the protracted lead time of equipment parts as a reason for this downward revision. When do you think the delay in delivery will be solved?

A. We are expecting a few months of delay in the delivery of equipment, but we do not think that such delay will basically work in favor of or against the production capacity reinforcement plan. With regard to the lengthening of the lead time of equipment parts, we speculate that the situation will return to normal by the end of next year as deliveries of semiconductors and others will normalize gradually.

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