

Third Quarter of FY2022 Presentation Q&A

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Questioner1

Q. 【Components】 Could you share with us the results for the third quarter and the plan for the fourth quarter concerning the operational rate of capacitors?

A. We planned 85% to 90% on the basis of the number of operational days for the third quarter. We ended up at 85%. For the fourth quarter, we plan to lower the rate to 80% by taking the inventory level and the trend of orders that we receive into account.

Q. 【Components】 At which timing do you think the inventory level of capacitors will return to an appropriate level?

A. At the moment, we hold more than three months' worth of inventory of products ready for sale and work in process combined. We intend to return inventory to an appropriate level by lowering the operational rate. We assume that the inventory level will return to normal around the summer.

Q. 【Components】 Is there any change in the environment in respect of the average selling price per piece and price decrease of capacitors?

A. The average selling price per piece has risen as the percentage of products for mobility has increased in the product mix. On the other hand, regarding requests for a price reduction from customers, we have received requests for a certain level of price reduction of products for the consumer product market up to now and incorporated that in the current financial results forecast. Also, as a trend from the next fiscal year onward, we assume that electric vehicle (EV) manufacturers will also ask us for a price reduction as they lower the selling price of their vehicles.

Q. 【Group-Wide】 Could you share with us the breakdown of the price decline of 11.0 billion yen cited in Breakdown of Operating Income Changes [FY22 Projection (October 2022) to FY22 Projection (February 2023)] on page 22 of the Earnings Release Conference material.

A. One of the reasons is the difference in price decline between the October projection and the February projection, but a more impactful factor is about passing a surge in material prices of lithium-ion secondary batteries on to selling prices. Although we have proceeded with this selling price hike resulting from material cost rises according to a pre-determined plan, we expect the amount of price hike to be smaller since sales quantities are expected to fall short of the October projection.

Q. 【Group-Wide】 How do you project the future trend of demand for parts? Could you share with us application-by-application trends.

A. Mobility-related customers have about one month's worth of inventory more than the pre-pandemic level, as we have guessed from the past. We do not think that they have changed their thinking about BCP inventory. We speculate that smartphone manufacturers in Greater China still hold a considerable amount of parts and material inventories. Since we think that we will have to wait until the first quarter of 2023 for the inventory to return to an appropriate level, we assume that a recovery in demand for parts will take place after the summer. In respect of parts for low-end smartphones, we see our orders for SAW filters increasing little by little. We have the sense that demand has started rising gradually.

Questioner2

Q. 【Group-Wide】 Could you tell us about the monthly order trend in the third Quarter?

A. Orders for group-wide were down 20% to 25% MoM in October, down 5% to 10% MoM in November and down 5% to 10% MoM in December. Orders for capacitors were down 5% to 10% in October, down 0% to 5% in November and down 5% to 10% in December. As a general trend, orders we received for capacitors and other components gradually declined in addition to lithium-ion secondary batteries.

Q. 【Group-Wide】 Has the downward trend been ongoing even in orders that you received since January?

A. I would like to refrain from giving details, but we do not see a recovery in orders either for the whole company or for capacitors as of January.

Q. 【Group-Wide】 Could you tell us about the timing when you will raise the operational rate from the current level?

A. Depending on the extent to which demand recovers in the first quarter of FY2023, we project that the operational rate will recover fully after the summer. We are thinking of decreasing inventory by controlling production until then.

Q. 【Group-Wide】 Could you let us know the meaning of “model mix change” cited in the supplementary explanation of the quantity forecast for smartphones?

A. Regarding the state of smartphone sales, our recognition is that high-end smartphones claim many of the top five spots continuously. On the other hand, the situation is that customers have a large inventory of parts and materials for high-end smartphones, but not so much for low-end ones. On the basis of demand for parts, we recognize that parts and materials for low-end smartphones started to flow earlier. Therefore, we figure that there is the gap between the flow of parts and sales-based statistics.

Q. 【Components】 Could you share with us the price reduction of capacitors for automobiles that you touched on previously? Could you let us know whether EV manufacturers alone are moving for a price reduction toward FY2023 or whether this move will spread to the whole of the automotive industry?

A. For the moment, we have not received requests for a price reduction of components directly from Tier 0 automotive manufacturers. However, we have heard that Tier 1 and Tier 2 manufacturers have received requests for a price reduction. Therefore, we recognize that such a move can also affect electronic component manufacturers including us. This move is just limited to EV manufacturers now. Therefore, we intend to get to the bottom of how manufacturers of hybrid vehicles and gasoline-powered vehicles will move.

Questioner3

Q. 【Group-Wide】 Could you please share with us the reason for the larger decline in sales from the previous quarter, compared with the drop in the quantity forecast of smartphone in February?

A. The largest negative impact on sales for the third quarter was the poor sales of parts for smartphones although we expected to capture brisk sales during the third quarter according to the usual seasonality. We infer that the reason is that more parts had been taken in the second quarter than we assumed mainly because the supply chains were unstable and direct delivery destinations of parts, such as multilayer resin substrates, capacitors and inductors, are not always smartphone manufacturers or their manufacturing contractors (EMS). Besides, we recognize that as smartphone manufacturers in Greater China keep a certain level of parts and material inventory, it is taking more time for them to reduce the level. On the other hand, the situation is that demand for customers who need parts for low-end smartphones is gradually coming back.

Q. 【Group-Wide】 Could you share with us the capital investment plan for FY2023?

A. We are in the middle of developing a plan. At this point, we are thinking that the amount will be around 200 billion yen in line with the medium-term plan. In addition to regular capital investment, we intend to make strategic investments, such as environmental investments and IT security measures, according to the medium-term plan.

Q. 【Devices/modules】 Could you let us know the situation of smartphone manufacturers adopting high-frequency modules for FY2023?

A. For high-end smartphones, there has been no opportunity to replace parts such as modules with PA and others, which have a stronger impact on monetary amounts. Despite that trend, in the portion in which we caught a good opportunity for parts replacement and were trying to expand sales, we have good prospects that our products will be adopted more than we expected. There was a lack of communication in local sites until the previous fiscal year partly due to the impact of the COVID-19 pandemic. However, we think that we were able to make better use of local laboratories and differentiate our products in terms of characteristics for the current fiscal year, and as a result our products were adopted. Additionally, we are planning to have platforms of chipset manufacturers in Greater China and customers in other regions adopt our products. To achieve this, we believe it is necessary to make investments.

Q. 【Components】 Is there any change in your thinking of reinforcing your capacity for capacitors?

A. As we proceed with capacity reinforcement, the denominator has become larger. For instance, if we were to scramble to reinforce the capacity by 20% a year, it would be difficult. So, considering the future growth rate, we are thinking of moving forward with an annual rate of 10% or so for capacity reinforcement, as we do now.

Questioner4

Q. 【Group-Wide】 Regarding projected sales for the fourth quarter, how much amount of quarter-on-quarter decrease will be, excluding the impact of foreign exchange rates?

A. In respect of the amount of decrease in net sales from the third quarter to the fourth quarter, roughly speaking, half of the decrease is due to the change to the currency rate assumption (141.64 yen for the third quarter to 127.00 yen for the fourth quarter). The other half is due to a net sales decrease forecast from lower quantity, excluding the impact of foreign currency rates.

Q. 【Components】 Do I understand that projected sales of capacitors for the fourth quarter are expected to decline from the previous quarter even excluding the impact of foreign currency rates?

A. Yes, your understanding is generally correct.

Q. 【Group-Wide】 Is the January order that you received in line with the premise in the February forecast?

A. We develop projected financial results based on the latest trend of orders that we receive. Therefore, the plan does not seem unrealistic compared with the current level of orders that we are receiving.

Q. 【Group-Wide】 Could you let us know the most noticeable cost increase factor for the full year of FY2022, compared with the previous year?

A. We expect personnel costs and other fixed costs to increase, of which electricity costs are projected to rise by approximately 15 billion yen. Additionally, we expect the consolidation of expenses incurred by an acquired subsidiary to have a negative impact of approximately 4.0 billion yen.

Q. 【Group-Wide】 Toward FY2023, how are you going to control costs? Could you share with us a forecast if you have one at present?

A. We believe that personnel costs can be a factor in raising costs. We will discuss with the labor union down the road. We will consider this issue by taking the trends of society into account as well. Besides, as for energy costs, we find it difficult at this moment to take the measure to reduce the costs drastically. We are thinking of curbing controllable costs.

Questioner 5

Q. 【Group-Wide】 What inventory level do you consider to be appropriate?

A. Regarding the inventory level, we are in no position to tell you since the budget for FY2023 has not been formulated yet. As we too have raised what we believe to be an appropriate inventory level in response to BCP, we are in the situation where we are at a certain level higher than in the past. At this moment, we do not think there is a need to lower the current levels of products ready for sale and work in process drastically.

Q. 【Group-Wide】 Do you intend to continue reducing inventory after the fourth quarter?

A. Our plan is to decrease inventory by approximately 15 billion yen in the fourth quarter. Sales are falling, but we plan to reduce production more than sales. We think that the fall in operational rate will hit the bottom during the fourth quarter and that we will be able to raise the rate gradually after that.

Questioner6

Q. 【Group-Wide】 Could you let us know your view of the quantity forecast for smartphones for FY2023 on the basis of demand for components?

A. We have not calculated enough yet, but we currently expect an increase of a few percent.

Q. 【Group-Wide】 If orders that you receive fall more than expected in the fourth quarter, do I understand that you will lower the operational rate further and compress inventory?

A. We have factored in a certain level of risks, judging from the current level of orders that we receive. Therefore, we do not feel the need to further lower production output in the fourth quarter compared with the February forecast.

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