KYOCERA Corporation

Financial Presentation for the Three Months Ended June 30, 2023

July 31, 2023

Event Summary

[Company Name]	KYOCERA Corporation
[Company ID]	6971-QCODE
[Event Language]	JPN
[Event Type]	Earnings Announcement
[Event Name]	Financial Presentation for the Three Months Ended June 30, 2023
[Fiscal Period]	FY2024 Q1
[Date]	July 31, 2023
[Time]	16:20 – 16:56 (Total: 36 minutes, Presentation: 9 minutes, Q&A: 27 minutes)
[Venue]	Webcast
[Number of Speakers]	1 Hiroaki Chida — Executive Officer, Senior General Manager of Corporate Management Control Group

Presentation

Moderator: Thank you all for your patience. We greatly appreciate your participation in today's webinar for KYOCERA Corporation amidst your busy schedules.

We are now going to hold the financial results briefing for the three months ended June 30, 2023. The materials we will be using today can be found on our company website. Please note that today's webinar is being recorded. We kindly ask for your understanding in advance.

Now, let me introduce the participant for today. We have with us Hiroaki Chida, the Executive Officer and Senior General Manager of Corporate Management Control Group.

Chida: I'm Chida. Thank you for having me.

Moderator: With that, we will start the explanation. Chida-san, please begin.

Chida: I am Hiroaki Chida, in charge of Corporate Management Control Group. I would like to take this opportunity to express my sincere gratitude for your ongoing support. Thank you very much for participating in our earnings briefing today, despite your busy schedules.

I will now explain according to the financial presentation for the three months ended June 30, 2023.

1 Financial Results for 1Q of Fiscal 2024

2 Financial Forecasts for Fiscal 2024

Notes: This is an English translation of the Japanese original. This translation is prepared for the reference and convenience solely for those who do not use Japanese. In the event of any discrepancy between this translation and the Japanese original, the latter shall prevail.
Certain of the statements made in this document are forward-looking statements, which are based on our current assumptions and beliefs in light of the information currently available to us. Please refer to "Cautionary Statements with respect to Forward-Looking Statements" on the last page.
In this document, the year ending March 31, 2024 is referred to as "Fiscal 2024," six months ended/ending September 30 is referred to as "1H," three months ended/ending June 30 is referred to as "1Q." Other fiscal years, half-year and quarterly periods are referred to in a corresponding manner.

Please refer to page one of the materials.

Today, as stated here, I will explain the summary of the financial results for 1Q of Fiscal 2024, as well as the financial forecasts for Fiscal 2024.

1 Financial Results for 1Q of Fiscal 2024

2 Financial Forecasts for Fiscal 2024

Now, please turn to page two. Firstly, I will explain the summary of the financial results for 1Q of Fiscal 2024.

Financial Results for 1Q of Fiscal 2024 (1)

(Unit: Yen in millions)

	Fiscal 2023 1Q	Fiscal 2024 1Q	Change Amount	Change %
Sales Revenue	491,954	479,420	-12,534	-2.5%
Operating Profit	41,428 (8.4%)	25,677 (5.4%)	-15,751	-38.0%
Profit Before Income Taxes	68,711 (14.0%)	50,477 (10.5%)	-18,234	-26.5%
Profit Attributable to Owners of the Parent	49,974 (10.2%)	37,392 (7.8%)	-12,582	-25.2%
Average Exchange Rate US$	130 yen	137 yen		
Average Exchange Rate Euro	138 yen	149 yen		

Note: Figures in parentheses represent percentages to sales revenue.

Both sales revenue and profit decreased due mainly to decrease in demand for our principal markets and progress of inflation.

Please turn to page three. Our sales revenue for 1Q amounted to JPY479.4 billion, representing a decrease of 2.5% from 1Q of Fiscal 2023. Operating profit was JPY25.7 billion, profit before income taxes was JPY50.5 billion, and profit attributable to owners of the parent was JPY37.4 billion.

A downturn in our principal markets and advancing inflation were the primary reasons for this decrease in sales revenue and profits.

Financial Results for 1Q of Fiscal 2024 (2)

(Unit: Yen in millions)

	Fiscal 2023 1Q	Fiscal 2024 1Q	Change	
			Amount	%
Capital Expenditures	44,367 (9.0%)	29,961 (6.2%)	-14,406	-32.5%
Depreciation Charge of Property, Plant and Equipment	25,310 (5.1%)	26,399 (5.5%)	1,089	4.3%
R&D Expenses	22,425 (4.6%)	24,984 (5.2%)	2,559	11.4%

Note: Figures in parentheses represent percentages to sales revenue.

Some capital expenditures, mainly for the fine ceramic components and electronic components, were delayed to 2Q onward in light of demand situation.

Please refer to page four. Capital expenditures were JPY30 billion, depreciation charge of property, plant and equipment was JPY26.4 billion, and R&D expenses were JPY25 billion.

We reduced our capital expenditures by postponing some investments to 2Q and beyond, depending on the demand situation, especially in the case of fine ceramic components and the Electronic Components Business.

Sales Revenue by Reporting Segment for 1Q of Fiscal 2024

KYOCERA

(Unit: Yen in millions)

Sales Revenue by Reporting Segment	Fiscal 2023 1Q		Fiscal 2024 1Q		Change	
	Amount	Component Ratio	Amount	Component Ratio	Amount	%
Core Components Business	**141,521**	**28.8%**	**134,065**	**28.0%**	**-7,456**	**-5.3%**
Industrial & Automotive Components Unit	46,938	9.5%	52,864	11.0%	5,926	12.6%
Semiconductor Components Unit	87,909	17.9%	74,307	15.5%	-13,602	-15.5%
Others	6,674	1.4%	6,894	1.5%	220	3.3%
Electronic Components Business	**95,401**	**19.4%**	**84,565**	**17.6%**	**-10,836**	**-11.4%**
Solutions Business	**258,003**	**52.4%**	**264,605**	**55.2%**	**6,602**	**2.6%**
Industrial Tools Unit	81,897	16.6%	80,448	16.8%	-1,449	-1.8%
Document Solutions Unit	101,177	20.6%	103,574	21.6%	2,397	2.4%
Communications Unit	47,501	9.6%	49,954	10.4%	2,453	5.2%
Others	27,428	5.6%	30,629	6.4%	3,201	11.7%
Others	5,884	1.2%	5,330	1.1%	-554	-9.4%
Adjustments and Eliminations	-8,855	-1.8%	-9,145	-1.9%	-290	—
Sales Revenue	**491,954**	**100.0%**	**479,420**	**100.0%**	**-12,534**	**-2.5%**

Please refer to page five. This page provides an overview of sales revenue by reporting segment.

Business Profit (Loss) by Reporting Segment for 1Q of Fiscal 2024

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(Unit: Yen in millions)

Business Profit by Reporting Segment	Fiscal 2023 1Q		Fiscal 2024 1Q		Change	
	Amount	% to Sales Revenue	Amount	% to Sales Revenue	Amount	%
Core Components Business	**20,754**	**14.7%**	**13,835**	**10.3%**	**-6,919**	**-33.3%**
Industrial & Automotive Components Unit	4,502	9.6%	6,218	11.8%	1,716	38.1%
Semiconductor Components Unit	17,074	19.4%	7,903	10.6%	-9,171	-53.7%
Others	-822	—	-286	—	536	—
Electronic Components Business	**16,007**	**16.8%**	**4,062**	**4.8%**	**-11,945**	**-74.6%**
Solutions Business	**14,721**	**5.7%**	**15,681**	**5.9%**	**960**	**6.5%**
Industrial Tools Unit	8,812	10.8%	5,024	6.2%	-3,788	-43.0%
Document Solutions Unit	6,870	6.8%	9,022	8.7%	2,152	31.3%
Communications Unit	-746	—	-543	—	203	—
Others	-215	—	2,178	7.1%	2,393	—
Others	-6,159	—	-9,922	—	-3,763	—
Total Business Profit	**45,323**	**9.2%**	**23,656**	**4.9%**	**-21,667**	**-47.8%**
Corporate Gains and Others	23,388	—	26,821	—	3,433	14.7%
Profit Before Income Taxes	**68,711**	**14.0%**	**50,477**	**10.5%**	**-18,234**	**-26.5%**

Now, please move to page six. Here, we present an overview of business profit by reporting segment.

Summary of Financial Results for 1Q of Fiscal 2024

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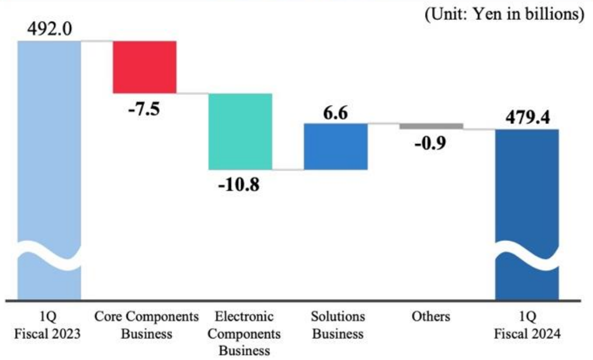
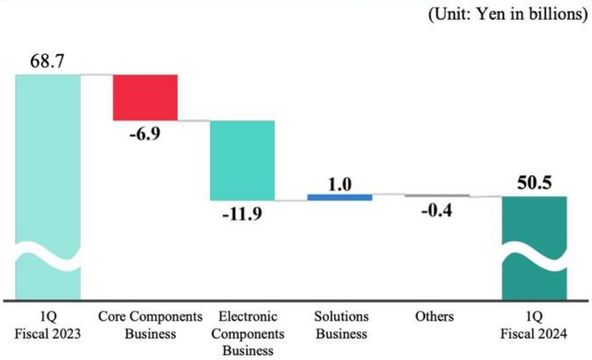
Sales Revenue



Sales revenue decreased due to the decrease in demand for our major components along with persisting demand adjustment from 4Q of Fiscal 2023 in our principal markets, namely, semiconductor-related and information and communications markets, which more than off-set a positive impact from weaker yen.

Profit Before Income Taxes



Profit decreased due mainly to factors such as increases in the prices of raw materials and energy costs, etc., caused by inflation, as well as the decrease in sales revenue.

Please turn to page seven. This page shows a summary of our results for 1Q.

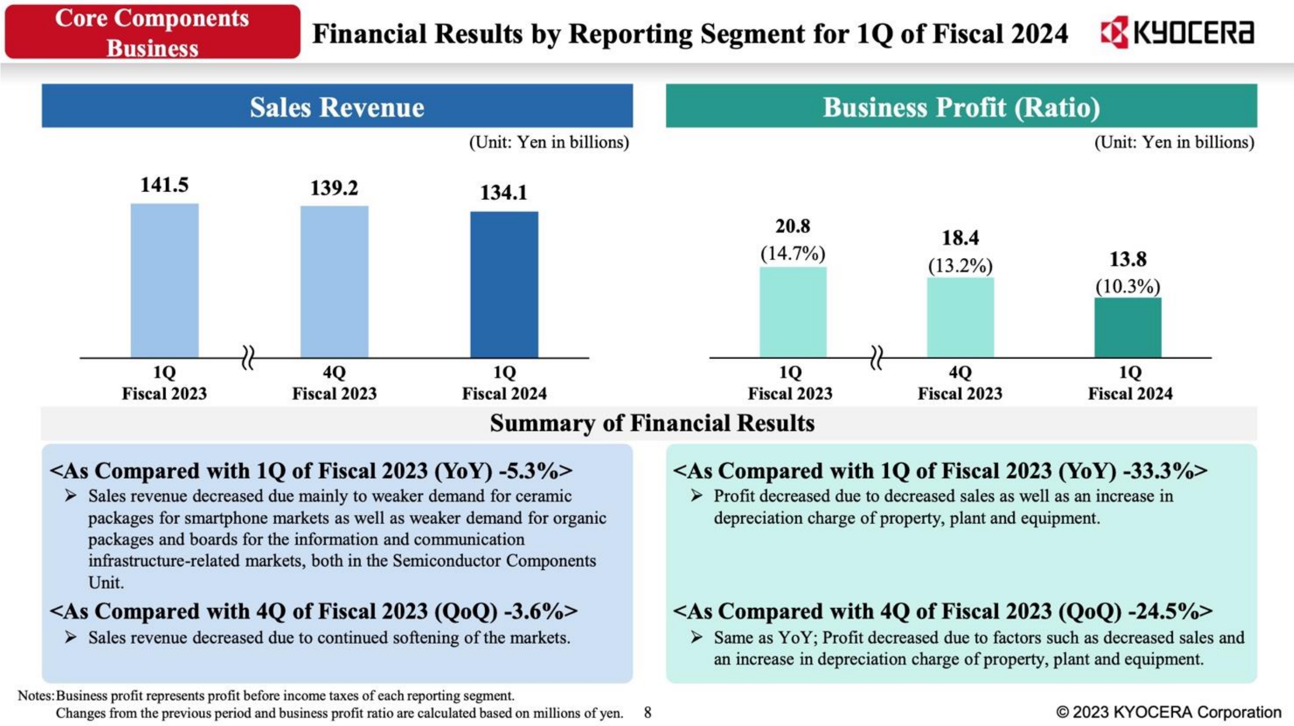
If you look at the sales revenue on the left side of the slide, you'll see that sales revenue of the Solutions Business, shown in blue in the middle of the graph, have increased, but sales revenue of both the Core Components Business and the Electronic Components Business have decreased.

Despite the beneficial effect on sales revenue from the weaker yen, sales revenue decreased due to a continued adjustment phase in our main markets, namely semiconductor-related and information and communication markets, from 4Q of Fiscal 2023, leading to a decrease in demand for key components, especially in the Electronic Components Business.

Next, please look at the profit before income taxes on the right. Similar to the trend in sales revenue, profit of the Solutions Business saw an increase, but both the Core Components Business and the Electronic Components Business experienced a decrease.

The decrease in profit was mainly due to the impact of reduced sales revenue and increased costs for raw materials and energy resulting from inflation. Just as with sales revenue, the decrease in the Electronic Components Business significantly affected profit.

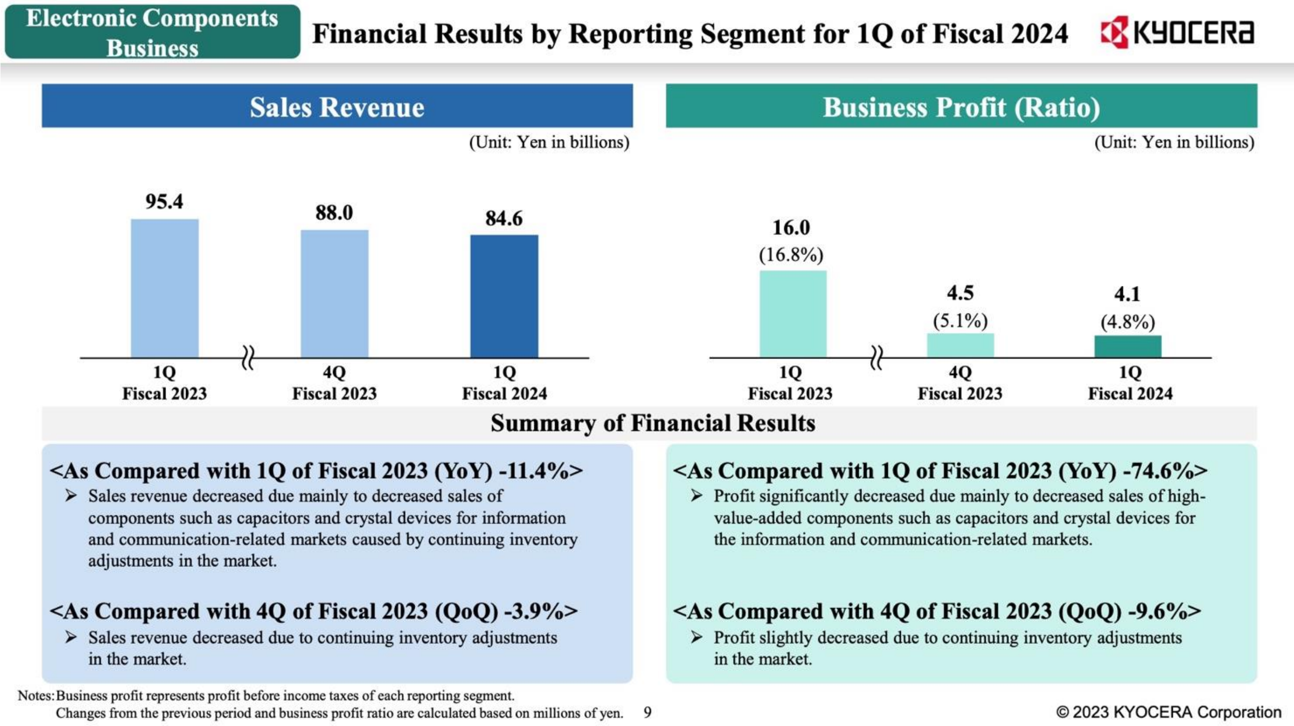
I will provide more details on the sales revenue and profit for each segment in the following pages.



Please turn to page eight. First, let's look at the Core Components Business.

Sales revenue for 1Q was JPY134.1 billion. Despite the steady demand for components for semiconductor processing equipment and automotive components, leading to increased sales revenue in the Industrial & Automotive Components Unit, there was a decrease in sales revenue in comparison to both 1Q and 4Q of Fiscal 2023. This was mainly due to the softening market conditions for ceramic packages for the smartphone market and organic packages and boards for the information and communication infrastructure-related markets in the Semiconductor Components Unit.

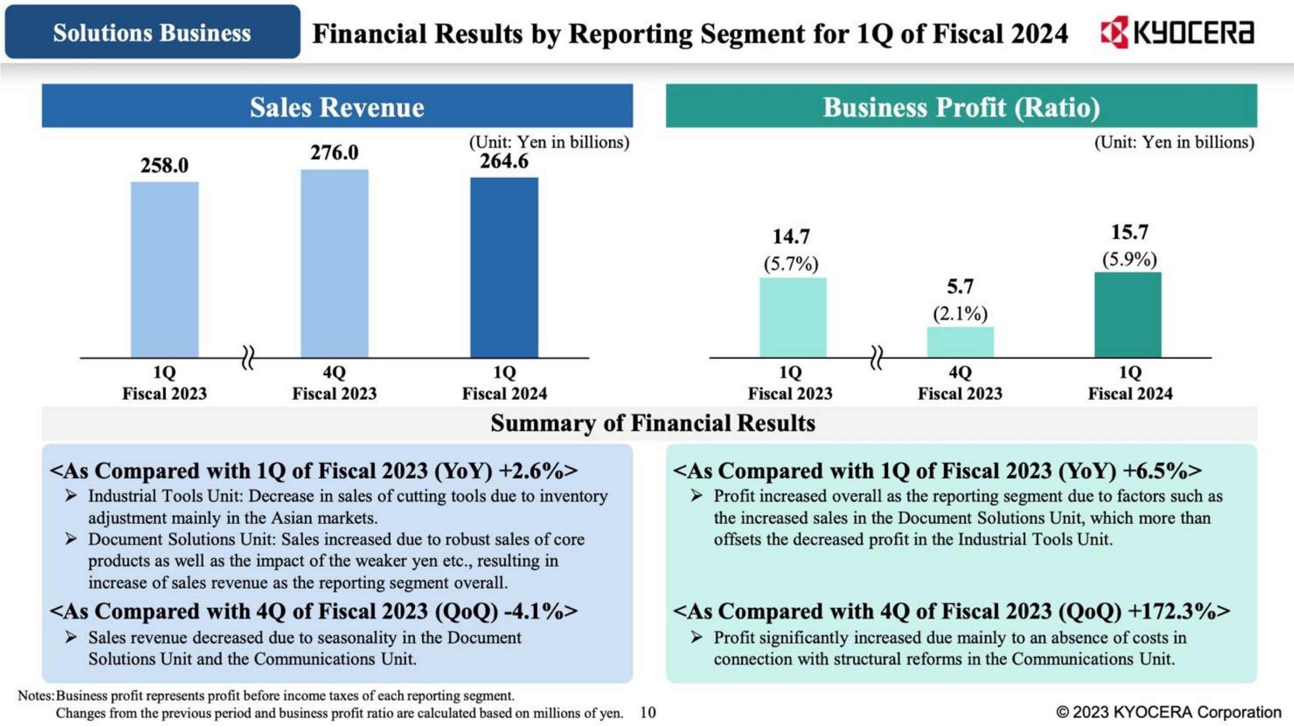
Profit was JPY13.8 billion. In addition to the impact of reduced sales, there was a decrease in profit compared to both 1Q and 4Q of Fiscal 2023 due to increased depreciation charge of property, plant and equipment.



Now, please refer to page nine. Next, we have the Electronic Components Business.

Sales revenue for 1Q was JPY84.6 billion. Due to the ongoing impact of inventory adjustments, there was a decrease in sales revenue in comparison to both 1Q and 4Q of Fiscal 2023. This was primarily due to decreased sales of capacitors and crystal devices for the information and communication-related markets.

Profit was JPY4.1 billion. The decrease in sales of high-value-added products such as capacitors and crystal devices for the information and communication-related markets led to a significant decrease in profit compared to 1Q of Fiscal 2023 and a slight decrease compared to 4Q of Fiscal 2023.



Please turn to page 10. Lastly, we have the Solutions Business.

Sales revenue for 1Q was JPY264.6 billion. In the Industrial Tools Unit, sales of cutting tools decreased due to the impact of inventory adjustments, primarily in the Asian market. However, thanks to the steady sales of core products in the Document Solutions Unit and the effect of the weaker yen, the reporting segment as a whole saw an increase in sales revenue compared to 1Q of Fiscal 2023. On the other hand, compared to 4Q of Fiscal 2023, sales revenue decreased due to seasonal factors in the Document Solutions Unit and the Communications Unit.

Profit was JPY15.7 billion. While the Industrial Tools Unit saw a decrease in profit, the reporting segment as a whole saw an increase in profit compared to 1Q of Fiscal 2023, largely due to the increase in sales in the Document Solutions Unit. Meanwhile, compared to 4Q of Fiscal 2023, there was a significant increase in profit mainly due to the absence of restructuring costs in the Communications Unit.

1 Financial Results for 1Q of Fiscal 2024

2 Financial Forecasts for Fiscal 2024

Please refer to page 11. Next, I will explain the financial forecasts for Fiscal 2024.

Financial Forecasts for Fiscal 2024 (1)

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(Unit: Yen in millions)

	Fiscal 2023	Fiscal 2024 No Revision from the May 2023 forecast	Change Amount	Change %
Sales Revenue	2,025,332	2,100,000	74,668	3.7%
Operating Profit	128,517 (6.3%)	147,000 (7.0%)	18,483	14.4%
Profit Before Income Taxes	176,192 (8.7%)	200,000 (9.5%)	23,808	13.5%
Profit Attributable to Owners of the Parent	127,988 (6.3%)	145,000 (6.9%)	17,012	13.3%
EPS (Basic-yen)	356.60	408.40		
Average Exchange Rate US$	135 yen	125 yen		
Average Exchange Rate Euro	141 yen	130 yen		

Notes: Figures in parentheses represent percentages to sales revenue.
Forecast of EPS (Basic-yen) for Fiscal 2024 is calculated using the average number of shares outstanding during 1Q of Fiscal 2024.

The semiconductor-related and information and communication markets, our principal markets, the timing of recovery is expected to be in 2H or onward.

Now, please turn to page 12. There have been no changes to our financial forecasts for Fiscal 2024 from the figures announced in May this year.

The performance of 1Q has been broadly within the initial expectations for the financial forecasts. On the other hand, we expect the recovery phase for our main markets, namely semiconductor-related and information and communication markets, to occur in 2H onward.

Financial Forecasts for Fiscal 2024 (2)

KYOCERA

(Unit: Yen in millions)

	Fiscal 2023	Fiscal 2024 No Revision from the May 2023 forecast	Change	
			Amount	%
Capital Expenditures	**173,901** (8.6%)	**275,000** (13.1%)	**101,099**	**58.1%**
Depreciation Charge of Property, Plant and Equipment	**108,757** (5.4%)	**123,000** (5.9%)	**14,243**	**13.1%**
R&D Expenses	**94,277** (4.7%)	**115,000** (5.5%)	**20,723**	**22.0%**

Note: Figures in parentheses represent percentages to sales revenue.

Please refer to page 13. There have been no changes to the figures for capital expenditures, depreciation charge of property, plant and equipment, and R&D expenses from those announced in May this year.

In terms of capital expenditures, we will strive not to miss opportunities while monitoring the trends in component demand.

Sales Revenue Forecasts by Reporting Segment for Fiscal 2024

KYOCERA

(Unit: Yen in millions)

Sales Revenue by Reporting Segment	Fiscal 2023		Fiscal 2024 No revision from the May 2023 forecast		Change	
	Amount	Component Ratio	Amount	Component Ratio	Amount	%
Core Component Business	**592,376**	**29.2%**	**620,000**	**29.5%**	**27,624**	**4.7%**
Industrial & Automotive Components Unit	199,194	9.8%	225,000	10.7%	25,806	13.0%
Semiconductor Components Unit	364,579	18.0%	365,000	17.4%	421	0.1%
Others	28,603	1.4%	30,000	1.4%	1,397	4.9%
Electronic Components Business	**378,536**	**18.7%**	**390,000**	**18.6%**	**11,464**	**3.0%**
Solutions Business	**1,068,597**	**52.8%**	**1,115,000**	**53.1%**	**46,403**	**4.3%**
Industrial Tools Unit	308,406	15.2%	315,000	15.0%	6,594	2.1%
Document Solutions Unit	434,914	21.5%	455,000	21.7%	20,086	4.6%
Communications Unit	207,793	10.3%	225,000	10.7%	17,207	8.3%
Others	117,484	5.8%	120,000	5.7%	2,516	2.1%
Others	23,403	1.2%	20,000	0.9%	-3,403	-14.5%
Adjustments and Eliminations	-37,580	-1.9%	-45,000	-2.1%	-7,420	—
Sales Revenue	**2,025,332**	**100.0%**	**2,100,000**	**100.0%**	**74,668**	**3.7%**

Please refer to page 14. This page provides a breakdown of our sales revenue forecasts by reporting segment. There have been no changes to the figures for all segments from those announced in May this year.

Business Profit (Loss) Forecasts by Reporting Segment for Fiscal 2024

KYOCERA

(Unit: Yen in millions)

Business Profit by Reporting Segment	Fiscal 2023		Fiscal 2024 (No revision from the May 2023 forecast)		Change	
	Amount	% to Sales Revenue	Amount	% to Sales Revenue	Amount	%
Core Components Business	**89,475**	**15.1%**	**86,000**	**13.9%**	**-3,475**	**-3.9%**
Industrial & Automotive Components Unit	24,743	12.4%	32,000	14.2%	7,257	29.3%
Semiconductor Components Unit	67,702	18.6%	53,000	14.5%	-14,702	-21.7%
Others	-2,970	—	1,000	3.3%	3,970	—
Electronic Components Business	**44,064**	**11.6%**	**55,000**	**14.1%**	**10,936**	**24.8%**
Solutions Business	**42,239**	**4.0%**	**79,000**	**7.1%**	**36,761**	**87.0%**
Industrial Tools Unit	23,279	7.5%	26,000	8.3%	2,721	11.7%
Document Solutions Unit	33,706	7.8%	40,000	8.8%	6,294	18.7%
Communications Unit	-11,729	—	3,000	1.3%	14,729	—
Others	-3,017	—	10,000	8.3%	13,017	—
Others	-28,795	—	-45,000	—	-16,205	—
Total Business Profit	**146,983**	**7.3%**	**175,000**	**8.3%**	**28,017**	**19.1%**
Corporate Gains and Others	29,209	—	25,000	—	-4,209	-14.4%
Profit Before Income Taxes	**176,192**	**8.7%**	**200,000**	**9.5%**	**23,808**	**13.5%**

Please refer to page 15. This is a breakdown of our business profit forecasts by reporting segment. Similar to sales revenue, there have been no changes to the figures from those announced in May this year.

We will continue to strive to secure orders and expand sales, while progressing with initiatives to further improve profitability, aiming to achieve our consolidated financial forecasts for Fiscal 2024.

That concludes my presentation. We sincerely ask for your continued support for our company.

Thank you very much for your attention.

Question & Answer

<Questioner 1>

[Q]: I have two questions. First, could you break down the product categories a bit more and clarify which areas were generally within the plan and which areas were slower than expected in 1Q compared to the plan?

Based on that, could you give us a sense of the level of recovery in 2Q? Is it a bit higher than what you expected three months ago, as planned, or a bit slow? I would appreciate if you could provide some insights at the segment and product levels.

[A]: First, in terms of our plan, the performance of 1Q exceeded our internal expectations. However, looking at the details, as I mentioned earlier, there was a bit of a slowdown in the Semiconductor Components Unit and a slight decline in the Industrial Tools Unit, but overall, the results were better than initially expected.

[Q]: When you say this, are you including the impact of exchange rates? How was it on a currency-neutral basis?

[A]: Even on a currency-neutral basis, we exceeded our initial expectations.

[Q]: So, excluding the Semiconductor Components Unit and the Industrial Tools Unit you mentioned, all other reporting segments exceeded expectations?

[A]: Including the impact of exchange rates, the Semiconductor Components Unit also exceeded expectations, so nearly all areas exceeded expectations when considering the impact of exchange rates.

[Q]: I see. So, how about 2Q viewed from here? I believe that your usual trend, according to your internal plan, is for significant increases in 2Q and 3Q.

[A]: Looking at the current orders, I think we are a bit behind what we expected for 2Q. Although orders have been increasing from 4Q of Fiscal 2023 to 1Q of Fiscal 2024 as planned, the pace of this increase seems to be slightly decelerating starting from 2Q.

[Q]: If we delve a bit deeper into segments or products, is this also the case for segments other than the Semiconductor Components Unit and the Industrial Tools Unit?

[A]: Regarding the semiconductor-related market, particularly for memory-related, orders are slightly behind our plan, and even for our semiconductor processing equipment-related business, they have been a bit slow from 2Q. Internally, we expect the pace of orders to re-accelerate from 3Q onwards.

[Q]: So, is that the reason why the effect in the Core Components Business is significant?

[A]: Yes, that's correct. Regarding the Electronic Components Business, which saw a significant decline in 1Q, the recovery is still somewhat slow according to the order situation. If we take 1Q of Fiscal 2023 as 100, it was about 70 in 4Q of Fiscal 2023, and it has only been inching up since then. Therefore, the Electronic Components Business is somewhat concerning.

[Q]: Thank you. My second major question pertains to the medium-term plan which you announced in May 2023, at the financial presentation of Fiscal 2023. During the span of this three-year plan, you've transformed previous discussions into formal strategies, indicating your intent to make progress in various areas. This includes aspects of governance, management planning, and potential M&A activities. We have noticed these positive shifts in your company's direction.

On the other hand, I think the stock market probably expects Kyocera to act with more speed, and there's a desire for additional measures to ensure the successful execution of growth strategy. I think this has been communicated sufficiently through the general meeting of shareholders. In this context, I'd like to ask what is being focused on within the Company now, or what additional discussions should be had.

I think the basic feeling is to increase the sales revenue and profit margin, but I'd like to know what else should be done, what else can be done. If there are any discussions about this, I'd appreciate it if you could share them. That's my second point.

[A]: We are fully aware of the requests we have received in our conversations with shareholders, and we understand the expectations of investors. Of course, sales revenue and profits are important, but the primary focus is still on the fact that the return on investment is a bit slow and low.

As for what we are focusing on within the Company, of course, profit margin is important, but we are really focusing on producing clear results from our investments. And we want to have thorough discussions about improving investment efficiency, in accordance with plans, or even faster.

[Q]: So, when you talk about achieving higher returns purely from the existing businesses, I think you've somewhat already touched on broader strategies such as M&A or share repurchases, or how to use cash. Is it correct to assume that there won't be much change in these areas, and you will continue to execute them diligently as indicated?

[A]: Yes, we've discussed our approach to capital allocation and highlighted our priorities. So, it's only natural that we will diligently execute our medium-term plan as laid out.

<Questioner 2>

[Q]: First, for 1Q, you've reduced and deferred some capital expenditures. In which products were capital expenditures deferred? And how do you view the market situation? Is there any change in your thinking regarding the timing of capital expenditures in light of the medium to long-term market environment? This is my first question.

[A]: Regarding capital expenditures, it's true that they've been significantly reduced compared to 1Q of Fiscal 2023 and that they're behind our internal targets. As I mentioned at the outset, we have deferred some based on current circumstances, but there are also several instances where equipment has not physically been delivered yet.

The central factors causing these delays are twofold. First, some of the capital expenditures related to fine ceramic components have been postponed. Second, due to weakening market conditions, our plans for capital expenditures in the Electronic Components Business and the start-up of our factory in Thailand have been delayed in some respects. These two factors are the primary reasons for the significant reduction.

For the full year, we haven't made any changes, but we're currently reviewing our outlook for 2H to see how it goes. We want to have a clear forecast. At the moment, we don't want to miss any business opportunities, so our plan is to properly implement capital expenditures.

[Q]: Just to clarify, for the investment mainly related to the fine ceramic components, the main issue is a delay in delivery, while for the Electronic Components Business, there's an element of postponement in light of demand. Is this the correct understanding?

[A]: Yes.

[Q]: As mentioned earlier, are you changing your approach to consider the efficiency of capital investment and optimize the timing of cash outflows, or is this just part of normal operations?

[A]: We're not specifically controlling the timing of cash outflows, so please understand that this is a shift within the range of normal operations.

[Q]: I see, thank you. My second question is about the market environment. You mentioned that the Semiconductor Components Unit is a bit weak. I'd like to hear about your market outlook for each application. How do you see the business environment for smartphones and automobiles? I don't think there have been any changes to your outlook for 2H yet, but based on the current situation, could you tell us if you think it will be slightly up or down, and share your impressions?

[A]: As for smartphones, as everyone understands, we believe the weakness will continue for the time being. As for automobiles, production is growing, so we expect it to continue to grow.

[Q]: So, for smartphones, even compared to the initial plan, do you still see it as a bit weak?

[A]: Yes, I believe it's weak.

<Questioner 3>

[Q]: I have two questions. The first one is about the significant YoY and QoQ decrease in sales revenue and business profit of the Electronic Components Business. Considering the exchange rate, I don't quite understand why it's decreasing QoQ. Could you break it down by KAVX and Kyocera, or tell us which products within Kyocera are particularly weak? Also, please share your outlook for 2Q and beyond.

[A]: As you pointed out, the Electronic Components Business is indeed weak, with both sales revenue and business profit declining regarding the electronic components business of Kyocera. With products like crystal devices not growing, the trend continues to be a decline QoQ.

For KAVX, there has been inventory adjustment in the market, and the inventory has been piling up. The operating rate has dropped significantly from the previous quarter. The biggest factor pressuring profits is the loss from lower capacity utilization, as costs are not falling as quickly as we'd like.

For this, looking at the current order trends, we expect a slight upward trend from 2Q onwards. However, it might be a bit weaker than we initially anticipated. We feel that the progress is somewhat slower for the Electronic Components Business compared to the Core Components Business.

[Q]: Thank you. When you say it's a bit weaker, are you referring to KAVX, or to the Electronic Components Business as a whole?

[A]: The Electronic Components Business as a whole is weak. However, because KAVX represents a significant portion of our business, any weakness there inevitably gives us the impression that the reporting segment as a whole is performing poorly.

[Q]: As we move into 2Q and beyond, I believe there are many products that typically see a seasonal increase. What is your current perception of these products?

[A]: Naturally, we expect products affected by seasonal factors to rebound. However, whether this will translate into profits is our primary concern.

[Q]: So, while sales revenues are expected to increase as per usual, there's a risk that profits may not necessarily follow suit?

[A]: Yes, there is a possibility that things may not proceed as they usually do.

[Q]: I understand. My next question is about the Semiconductor Components Unit. When you break this down into ceramic packages and organic packages and boards, what kind of trends do you anticipate for 1Q, 2Q, and beyond? In particular, I understand you have plans to significantly increase production capacity for organic packages and boards. While I don't expect this to change in the medium to long term, could you tell us about any changes happening currently?

[A]: Regarding ceramic packages and organic packages and boards, ceramic packages are gradually recovering, so we expect an increase towards 3Q. However, organic packages and boards may not reach that point just yet. It might take a little longer, so they might slightly underperform our expectations.

<Questioner 4>

[Q]: I only have one question. Could you explain the Others in the Solutions Business? In 4Q of Fiscal 2023, there was a loss of around JPY3 billion, but in 1Q, there is a profit of over JPY2 billion. Could you explain the background of this change and how you view the continuity of this trend into 2Q and beyond?

[A]: The others category includes our smart energy business, the solar-related businesses, which have improved and are now almost at break-even. This is a major reason for the change.

Additionally, we previously had a transportation infrastructure business in this category, which we have discontinued and transferred to research and development. These two factors have largely contributed to the change. Additionally, there are also small components-related businesses that are steadily recovering, which I believe is the main cause.

[Q]: So, you restructured the transportation infrastructure business, which means the losses are now attributed to the Corporate Gains and Others?

[A]: As for the transportation infrastructure business, we booked some loss allowances in Fiscal 2023 in the communications-related business. So those losses are not present in Fiscal 2024's transportation infrastructure business.

[Q]: I see. Could you tell me more about the specifics of the improvements in the smart energy business? For example, are you seeing benefits from profitability improvements in areas such as batteries? Could you elaborate on the reasons behind these improvements and their sustainability?

[A]: As for smart energy business, we have seen significant improvements, thanks in part to the rise in resilience, including aspects like ZEH (Net Zero Energy House). We are now close to reaching a break-even point. Going forward into 2Q and beyond, we expect further improvements due to the effects of contracts with Daito Trust Construction, including storage batteries. For Fiscal 2024, we anticipate achieving profitability.

<Questioner 5>

[Q]: I have a few detailed questions to ask. First, regarding the cost reallocation in the Others of the Solutions Business that was discussed earlier, to which reporting segment has this been reallocated?

Also, looking at the numbers, the sales revenue and business profit of the Industrial Tools Unit have increased considerably on a QoQ basis. Could you please explain the reasons for this robust performance? Could you first explain these two points?

[A]: The costs from the Others in the Solutions Business have been reallocated to the Others.

[Q]: So, that's why the Others is performing poorly. Also, could you please explain the reasons for the good performance of the Industrial Tools Unit? There seems to be a significant improvement when looking at it on a QoQ basis.

[A]: Your question is about the reason for the growth compared to the 4Q of Fiscal 2023, right?

[Q]: Yes, that's correct.

[A]: Sales of pneumatic and power tools have seen an increase. Companies such as SouthernCarlson and KIT have contributed to this growth.

[Q]: Thank you for your explanation. My second question is regarding the Semiconductor Components Unit. I find it easier to understand the situation when comparing QoQ, so I'd like to ask you to explain it in that manner. Is the significant deterioration specific to the organic packages and boards, or are the ceramic packages also experiencing a similar trend? Could you please explain this?

[A]: If we compare it QoQ, the decrease in sales revenue is significantly larger for organic packages and boards.

[Q]: So, given the continued inventory adjustments, it's hard to project the future for organic packages and boards, isn't it? I mean in terms of your customers' inventory adjustments.

[A]: Yes.

[Q]: Moving on to my third question, the capital expenditure plan within the medium-term plan was quite surprising. Even if demand is weak, Kyocera announced to continue investing. But looking at the progress in 1Q, given that your company employs the amoeba management, I get the impression that there's considerable resistance to investing during times of weak demand.

Is this due to a top-down lack of progress in investment, or is it more bottom-up, where with the amoeba style of management, a stabilizer effect is in place where practically feasible and infeasible investments are separated, resulting in less progress in investment? How should we think about this?

[A]: Of course, since we are employing the amoeba management, investment decisions are made by the manufacturing department. But even then, when we need to do something, we do it, and there are also cases where we pursue certain areas regardless of the circumstances, as directed by management. It's not that we've delayed everything due to a softening market; there's also quite a bit that hasn't been delivered as expected.

[Q]: So, should I picture it like this: strategic investments are decided top-down, and in other areas, given the amoeba management style, there's a kind of stabilizing effect that kicks in when demand is low?

[A]: Yes, your understanding is correct.

Notes

1. *This document was edited from the original recording and transcripts provided by SCRIPTS Asia, Inc.*
2. *In this document, the year ending March 31, 2024 is referred to as "Fiscal 2024," six months ended/ending September 30 is referred to as "1H," three months ended/ending June 30 is referred to as "1Q." Other fiscal years, half-year and quarterly periods are referred to in a corresponding manner.*

Cautionary statement