



Outline of Q&A on Conference Call for the Nine Months Ended December 31, 2020

(Held on February 1, 2021)

- * Fiscal year ending March 31, 2021: This fiscal year
- Fiscal year ending March 31, 2022: Next fiscal year
- 1st quarter (from April 1, 2020 to June 30, 2020): 1Q
- 2nd quarter (from July 1, 2020 to September 30, 2020): 2Q
- 3rd quarter (from October 1, 2020 to December 31, 2020): 3Q
- 4th quarter (from January 1, 2021 to March 31, 2021): 4Q

1. Business results

【Business results in this fiscal year】

- Q : In the Components Business, although sales revenue and business profit increased in 3Q compared with in 2Q, I get the impression that the scope of these increases is small compared with those at other companies. Were there any factors that pushed down profits more than you anticipated? Also, please explain the reasons for the expected increase in business profit in 4Q compared with 3Q.
- A : In 3Q, costs rose because we responded to a sudden increase in production of specific components and this slightly squeezed profits. In 4Q, we expect rising demand, especially for AVX Corporation (AVX) 's in-vehicle related products. Although a lagging recovery of sales of AVX including the portion for inventory sales, we believe we can boost business profit if this portion recovers just a little more.
- Q : What are the reasons for the expected increases in business profit of Industrial & Automotive Components Group and the Semiconductor Components Group in 4Q?
- A : The Industrial & Automotive Components Group is expected to record a large increase in orders for components for semiconductor processing equipment and for cutting tools while business profit is also expected to increase. In the Semiconductor Components Group, although we incurred costs for responding to increased production in 3Q, we assume these costs will normalize in 4Q.

Q : In the financial forecast for the Electronic Devices Group both sales revenue and business profit have been revised downward from the financial forecast announced in October. Can you please explain the reasons?

A : The impact of U.S.-China trade frictions is a major factor. Additionally, a large amount of sales of Kyocera's electronic components is derived from smartphones and every year these sales tend to decrease in 4Q following the Christmas sales season. However, we are now in a period of the spread of 5G. So, under present circumstances these sales are not declining as in a normal year and there is even a possibility of an upturn.

【Outlook for financial results in the next fiscal year】

Q : How do you expect to grow in each segment next fiscal year?

A : We anticipate a double-digit increase in sales revenue in the Components Business. We also expect the Communications Group to recover by the same amount as the decline in this fiscal year. The Document Solutions Group will probably continue a downward trend. The Life & Environment Group aims for double-digit growth and we would like to regain the portion that decreased in this fiscal year.

Q : Is the increase in sales revenue in the Components Business based on the assumption of the spread of 5G and the emerging results of initiatives you have taken to date in mobility fields while at the same time the automobile market recovers and the industrial machinery market, which includes components for semiconductor processing equipment, also begins to rebound?

A : Yes, this is our assumption. There is rapidly increasing customer demand for components for semiconductor processing equipment and 5G-related compact components such as SMD packages for crystal devices. I think semiconductors and 5G-related components will be the driving forces.

2. Conditions by reporting segment

【Electronic Devices Group】

Q : You have already made AVX into a wholly owned subsidiary. Could you please explain what types of measures you will implement in the next fiscal year and include your thoughts about a timeline for integration with AVX.

A : We have already begun technical exchanges. We will concretely start exchanges that will include dispatching department manager-level personnel in sales and research fields from Japan to AVX while the Japanese side will accept human resources from AVX's research fields. In manufacturing fields, we will begin exchanges in facility-related areas. For example, we will build capacitor production equipment in Japan and transfer these to AVX.

【Document Solutions Group】

Q : Business profit in 3Q improved significantly. Do you expect to also maintain this level in the next fiscal year?

A : In 3Q, on top of restraining costs significantly, sales of toner and consumables in particular exceeded expectations and therefore business profit margin was higher than normal. We regard the normal profit level of this business as being around 10% to 11%.

Q : What are your assumptions for sales revenue in the next fiscal year?

A : We are confirming the number of prints by customers. There is little likelihood that these will decrease sharply and we are assuming a level that will be slightly lower.

【Life & Environment Group (smart energy business)】

Q : Please explain the impairment loss recorded in the smart energy business. Did you decide to record an impairment loss in the sector, which you would expect to grow in the future, due to factors such as delays in projects?

A : The main reason was because delays in the construction of mega solar systems as well as the inability to conduct face-to-face sales due to the impact of COVID-19 caused us to considerably lag behind our business plan in this fiscal year. Based on these circumstances, we made an impairment judgment. As a result, because the market value of this business was below its book value, we recorded an impairment loss of 11.5 billion yen relating to machinery, equipment and goodwill as well as intangible assets in the smart energy business.

Q : Please explain the outlook for profit and loss improvements in the next fiscal year. In addition to mass production of new storage batteries, do you expect a recovery in the areas that were sluggish due to the impact of COVID-19 during this fiscal year?

A : Because we recorded an impairment loss, depreciation charge will decrease in the next fiscal year. The smart energy business was significantly affected by COVID-19 in the first half of this fiscal year but improved all the way to the breakeven point in the second half of this fiscal year. In the next fiscal year, we believe we can improve to a break-even level even if we include R&D expenses.

Q : Does this mean that the impact of COVID-19 has run its course and that sales of existing products will recover while sales of storage batteries will also contribute?

A : This is what we are thinking. Furthermore, we believe that in the next fiscal year we will be able to work on those large-scale projects for which we were unable to proceed with in this fiscal year due to the impact of COVID-19. We expect relatively large growth in sales revenue as well.

Q : Tell me about your business in SOFC.

A : Originally these are fuel cells for single houses so we have provided large sizes.

However, solar power generating systems can also be installed on single houses. For this reason, we aim for growth in our SOFC business for multi-dwelling residences and last year we developed a compact product as small as an outdoor unit for air conditioners together with Tokyo Gas Co., Ltd. We envision undertaking this business by targeting SOFCs and storage batteries at multi-dwelling residences and solar power generating systems and storage batteries at single houses.

【Corporate and others profit】

Q : Do you anticipate temporary special factors in Corporate and others profit in 4Q?

A : Our forecast is a little conservative.

3. Other

【Organizational restructuring】

Q : Is it correct to assume there are no changes to your 16 main businesses and subsidiaries and that you only changed the reporting segment classifications?

A : From next fiscal year, we plan to appoint officers in charge of each of the three segments. We are thinking of delegating a large amount of authority, including decision-making authority, to these officers in charge. As a result, besides realizing speedy decision-making, we would like to pursue synergies by deepening exchanges such as for human resources within related businesses.

Q : Will there be any changes in the relationship between the R&D department and each business segment as a result of these segment changes?

A : The R&D department will be an organization under the direct control of the president that is independent from the business segments. However, we wish to create a system that enables interchanges of engineers assigned to each business segment and engineers in the R&D department from an early stage. We will also eliminate walls between research departments. Moreover, when transitioning from the R&D stage to commercialization, we will adopt a project structure that bridges each department. Presently, there are still directly controlled projects in mobility and energy-related areas, we are considering a framework for promoting projects under the direct control of the president at the commercialization stage.

Q : Please describe the results you hope to achieve from appointing officers in charge of each business segment and the timing of the emergence of these results.

A : We expect the largest effect to be that we will be able to achieve things that one division alone could not do so far. For example, there are many departments that use similar technologies related to ceramics, so we can deepen exchanges within Core Components Business. In addition, we will formulate an investment plan for Core Components Business as a whole and concentrate investments on growth products and curb investments in other fields as we also aim to clarify the strengths and weaknesses of our current businesses.

Q : My preliminary calculations of the size of sales in your new business segments project sales of approximately 600 billion yen in Core Components Business, approximately 300 billion yen in Electronic Components Business and approximately 600 billion yen in Solution Business. In thinking about the next five years, please explain how you would like to change the balance among these three business segments.

A : We are hoping the Core Components Business will generate stable profits. In Electronic Components Business, compact crystal devices are growing and we seek to achieve growth by realizing more-compact components. We recently acquired a laser business and we wish to expand business in fields such as devices. In Solution Business, there are many businesses that need to change quite drastically. For example, the downtrend in copiers is likely to continue so we must focus on commercial or industrial use printer in the future. In the smart energy business, we believe we must shift toward renewable energy and the telecommunications equipment business needs to switch to B2B such as local 5G rather than focus on mobile phone handsets.

Q : For Kyocera, the Solution Business appears to be a problem business. I believe Core Components Business has a high return on invested capital and generates cash. So, does this mean that this cash will be then allocated to Solution Business, which is a problem business? Please explain which businesses you will invest capital in and how you will manage your businesses as a whole.

A : For the time being, we think that investment in Core Components Business and Electronic Components Business will become overwhelmingly large. In Solution Business, last year we began offering commercial inkjet printers and we plan to expand into industrial-use printers in the future. We believe we can achieve relatively firm growth in this field. In the telecommunications equipment business, we previously recorded large losses. Presently, we have improved this business to the point where we can achieve 5% profit and we must shift to B2B without slipping into the red. Currently, the smart energy business is the issue. we would like to make efforts to boost the spread of renewable energy.

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