



KYOCERA Corporation

Financial Presentation for the Six Months Ended September 30, 2023

November 1, 2023

Event Summary

[Company Name]	KYOCERA Corporation	
[Company ID]	6971-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Financial Presentation for the Six Months Ended September 30, 2023	
[Fiscal Period]	FY2024 2Q	
[Date]	November 1, 2023	
[Time]	16:40 – 17:21 (Total: 41 minutes, Presentation: 9 minutes, Q&A: 32 minutes)	
[Venue]	Webcast	
[Number of Speakers]	2	
	Hideo Tanimoto	President and Representative Director
	Hiroaki Chida	Executive Officer, Senior General Manager of Corporate Management Control Group

Presentation

Moderator: Hello, everyone. Thank you for your patience. Today, thank you for taking time out of your busy schedules to participate in KYOCERA Corporation's webinar. Now we begin the financial presentation for the six months ended September 30, 2023. Please refer to our website for the materials that will be used today.

Please note that today's webinar is being recorded. Please understand this in advance.

Let me first introduce today's attendees. Hideo Tanimoto, President and Representative Director.

Tanimoto: I am Tanimoto. Thank you.

Moderator: Hiroaki Chida, Executive Officer, Senior General Manager of Corporate Management Control Group.

Chida: I am Chida. Thank you.

Moderator: We will now begin the explanation. President Tanimoto, please begin.

Tanimoto: My name is Tanimoto from KYOCERA. I would like to take this opportunity to thank you all for your continued support. And thank you very much for taking time out of your busy schedules to attend our financial results briefing today.

I will now explain the financial presentation for the six months ended September 30, 2023, in accordance with the presentation materials.

1 Financial Results for 1H 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.

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Please see page one of the document.

Today, we would like to explain the financial results for 1H of FY2024 and the financial forecasts for FY2024, as written here.

1 Financial Results for 1H of Fiscal 2024

2 Financial Forecasts for Fiscal 2024

See page two. I will now begin with the financial results for 1H of FY2024.

Financial Results for 1H of Fiscal 2024 (1)



(Unit: Yen in millions)

	Fiscal 2023 1H	Fiscal 2024 1H	Change	
			Amount	%
Sales Revenue	1,012,172	985,290	-26,882	-2.7%
Operating Profit	76,488 (7.6%)	54,002 (5.5%)	-22,486	-29.4%
Profit Before Income Taxes	104,311 (10.3%)	77,867 (7.9%)	-26,444	-25.4%
Profit Attributable to Owners of the Parent	75,586 (7.5%)	56,487 (5.7%)	-19,099	-25.3%
Average Exchange Rate	US\$ 134 yen	141 yen		
	Euro 139 yen	153 yen		

Note: Figures in parentheses represent percentages to sales revenue.

Sales revenue and profits decreased due mainly to sluggish demand in our principal markets and the effect of inflation.

See page three. Sales revenue for 1H of the year amounted to JPY985.3 billion, down 2.7% from the same period last year. Operating profit was JPY54 billion, profit before income taxes was JPY77.9 billion, and profit attributable to owners of the parent was JPY56.5 billion.

Both sales revenue and profits declined, mainly due to sluggish demand in our key markets and inflation.

Financial Results for 1H of Fiscal 2024 (2)



(Unit: Yen in millions)

	Fiscal 2023 1H	Fiscal 2024 1H	Change	
			Amount	%
Capital Expenditures	85,416 (8.4%)	65,963 (6.7%)	-19,453	-22.8%
Depreciation Charge of Property, Plant and Equipment	52,158 (5.2%)	54,077 (5.5%)	1,919	3.7%
R&D Expenses	45,717 (4.5%)	50,757 (5.2%)	5,040	11.0%

Note: Figures in parentheses represent percentages to sales revenue.

Some capital expenditures were delayed to 2H onward in light of demand situation.

See page four. Capital expenditures totaled JPY66 billion, depreciation charge of property, plant, and equipment, JPY54.1 billion, and R&D expenses JPY50.8 billion.

Capital expenditures decreased due to the postponement of some capital expenditures to 2H of the current fiscal year or later in response to the current demand situation.

Sales Revenue by Reporting Segment for 1H of Fiscal 2024



(Unit: Yen in millions)

Sales Revenue by Reporting Segment	Fiscal 2023 1H		Fiscal 2024 1H		Change	
	Amount	Component Ratio	Amount	Component Ratio	Amount	%
Core Components Business	298,981	29.5%	282,402	28.7%	-16,579	-5.5%
Industrial & Automotive Components Unit	96,790	9.6%	109,165	11.1%	12,375	12.8%
Semiconductor Components Unit	188,675	18.6%	158,916	16.1%	-29,759	-15.8%
Others	13,516	1.3%	14,321	1.5%	805	6.0%
Electronic Components Business	195,882	19.3%	174,758	17.7%	-21,124	-10.8%
Solutions Business	524,078	51.8%	536,839	54.5%	12,761	2.4%
Industrial Tools Unit	162,244	16.0%	159,622	16.2%	-2,622	-1.6%
Document Solutions Unit	206,060	20.4%	212,891	21.6%	6,831	3.3%
Communications Unit	98,544	9.7%	105,045	10.7%	6,501	6.6%
Others	57,230	5.7%	59,281	6.0%	2,051	3.6%
Others	10,751	1.1%	10,007	1.0%	-744	-6.9%
Adjustments and Eliminations	-17,520	-1.7%	-18,716	-1.9%	-1,196	—
Sales Revenue	1,012,172	100.0%	985,290	100.0%	-26,882	-2.7%

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See page five. This shows sales revenue by reporting segment. Details will be explained later.

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



(Unit: Yen in millions)

Business Profit by Reporting Segment	Fiscal 2023 1H		Fiscal 2024 1H		Change	
	Amount	% to Sales Revenue	Amount	% to Sales Revenue	Amount	%
Core Components Business	46,460	15.5%	30,466	10.8%	-15,994	-34.4%
Industrial & Automotive Components Unit	10,879	11.2%	11,737	10.8%	858	7.9%
Semiconductor Components Unit	38,345	20.3%	18,767	11.8%	-19,578	-51.1%
Others	-2,764	—	-38	—	2,726	—
Electronic Components Business	30,511	15.6%	9,860	5.6%	-20,651	-67.7%
Solutions Business	25,697	4.9%	31,803	5.9%	6,106	23.8%
Industrial Tools Unit	15,336	9.5%	9,212	5.8%	-6,124	-39.9%
Document Solutions Unit	13,269	6.4%	19,352	9.1%	6,083	45.8%
Communications Unit	-2,745	—	593	0.6%	3,338	—
Others	-163	—	2,646	4.5%	2,809	—
Others	-12,959	—	-21,281	—	-8,322	—
Total Business Profit	89,709	8.9%	50,848	5.2%	-38,861	-43.3%
Corporate Gains and Others	14,602	—	27,019	—	12,417	85.0%
Profit Before Income Taxes	104,311	10.3%	77,867	7.9%	-26,444	-25.4%

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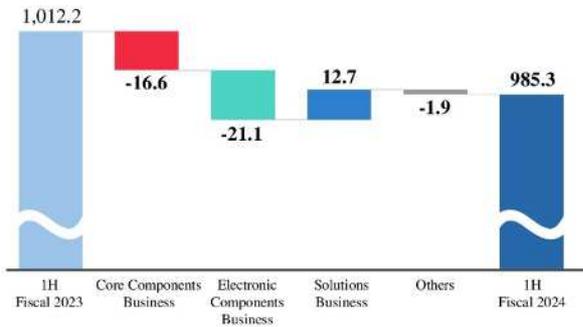
See page six. This shows business profits by reporting segment.

Summary of Financial Results for 1H of Fiscal 2024



Sales Revenue

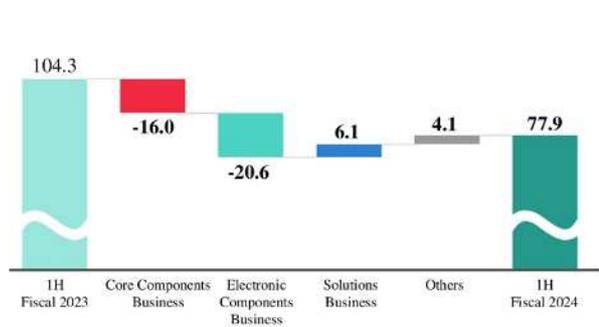
(Unit: Yen in billions)



Despite an increase in sales in the Solutions Business, sales revenue decreased due mainly to the decrease in demand for our principal products for the semiconductor-related and the information and communication markets.

Profit Before Income Taxes

(Unit: Yen in billions)



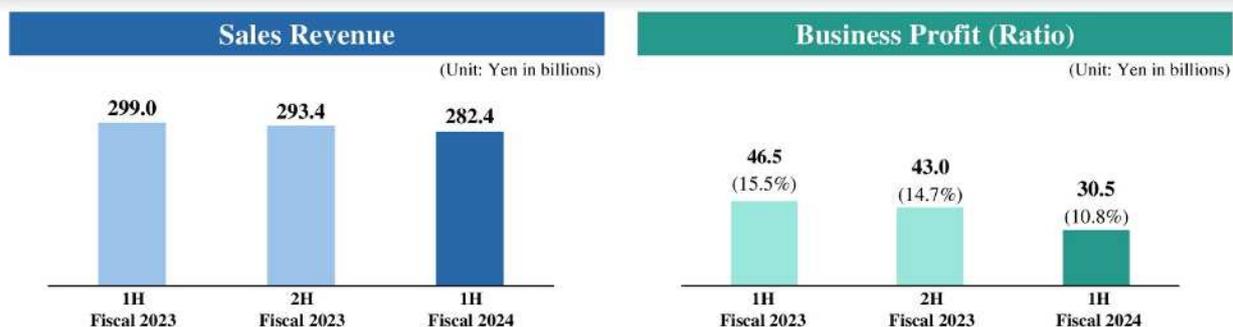
Profit decreased due mainly to factors such as increases in the prices of raw materials and energy costs, etc., caused by inflation, as well as the decrease in sales revenue.

See page seven. This shows a summary of the results for 1H.

See the sales revenue on the left side of the slide. By reporting segment, sales revenue of the Solutions Business, shown in the center of the graph in blue, increased, but sales of the Core Components Business and the Electronic Components Business decreased, mainly due to the impact of declining demand for key products in the semiconductor-related and information and telecommunications markets.

Then look at profit before income taxes on the right side. As with sales revenue, the Solutions Business increased, but the Core Components Business and the Electronic Components Business decreased.

In addition to the impact of lower sales revenue, profit decreased mainly due to higher raw material prices, energy costs, and other costs caused by inflation. Details of sales revenue and profit of each segment are explained on the next and subsequent pages.



Summary of Financial Results

<As Compared with 1H of Fiscal 2023: -5.5%>

- Sales revenue decreased due mainly to weaker demand for ceramic packages for the smartphone markets as well as weaker demand for organic packages and boards for the information and communication infrastructure-related markets, both in the Semiconductor Components Unit.

<As Compared with 2H of Fiscal 2023: -3.7%>

- Sales revenue decreased due to continuing sluggish demand.

<As Compared with 1H of Fiscal 2023: -34.4%>

- Business profit decreased due to decreased sales of the Semiconductor Components Unit, as well as increases in the prices of raw materials and depreciation charge of property, plant and equipment, etc.

<As Compared with 2H of Fiscal 2023: -29.2%>

- Business profit decreased due mainly to decrease in sales of Semiconductor Components Unit as well as an increase of depreciation charge of property, plant and equipment, etc.

Notes: Business profit represents profit before income taxes of each reporting segment. Changes from the previous period and business profit ratio are calculated based on millions of yen. 8

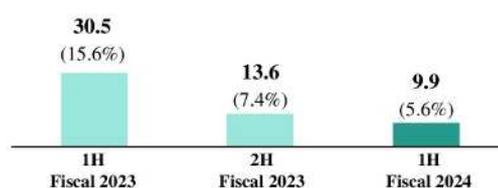
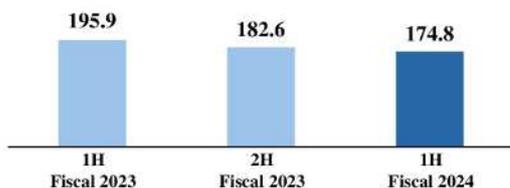
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See page eight. First, the Core Components Business.

Sales revenue for 1H totaled JPY282.4 billion. Sales revenue decreased both compared to 1H of the previous fiscal year and 2H of the previous fiscal year, mainly due to softening market conditions for ceramic packages for the smartphone markets and organic packages and boards for the information and telecommunications infrastructure market in the Semiconductor Components Unit.

Profit was JPY30.5 billion. In addition to the impact of lower sales in the Semiconductor Components Unit, higher raw material prices and higher depreciation charge of property, plant and equipment resulted in lower profit, both compared to 1H of the previous fiscal year and compared to 2H of the previous fiscal year.

Sales Revenue (Unit: Yen in billions) **Business Profit (Ratio)** (Unit: Yen in billions)



Summary of Financial Results

<As Compared with 1H of Fiscal 2023: -10.8%>

- Sales revenue decreased due mainly to inventory adjustments and decreased demand of components such as capacitors and crystal devices for the information and communication markets.

<As Compared with 2H of Fiscal 2023: -4.3%>

- Sales revenue decreased due to continuing market adjustment.

<As Compared with 1H of Fiscal 2023: -67.7%>

- Business profit decreased significantly due to decreased sales of high-value-added components such as capacitors and crystal devices for the information and communication markets as well as higher cost of sales ratio resulting from a lower utilization rate.

<As Compared with 2H of Fiscal 2023: -27.2%>

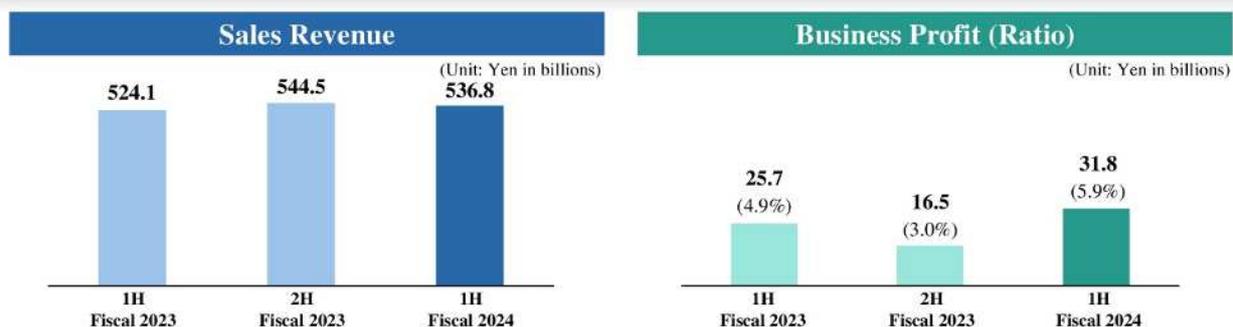
- Business profit decreased due to continuing market adjustment as well as low utilization rate.

Notes: Business profit represents profit before income taxes of each reporting segment. Changes from the previous period and business profit ratio are calculated based on millions of yen. 9

See page nine. Next, the Electronic Components Business.

Sales revenue for 1H amounted to JPY174.8 billion. Sales revenue decreased, both compared to 1H of the previous fiscal year and 2H of the previous fiscal year, mainly due to inventory adjustments and decreased demand for capacitors and crystal devices for the information and telecommunications markets.

Profit was JPY9.9 billion. A decline in sales of high value-added products, such as capacitors and crystal devices for the information and telecommunications markets, and a rise in the cost of sales ratio due to lower capacity utilization resulted in a significant decrease in profit compared to 1H of the previous fiscal year and a decrease in profit compared to 2H of the previous fiscal year as well.



Summary of Financial Results

<As Compared with 1H of Fiscal 2023: +2.4%>

- Industrial Tools Unit: Sales of cutting tools decreased due to inventory adjustments.
- Document Solutions Unit: Sales increased due to the impact of weaker yen, etc.

<As Compared with 2H of Fiscal 2023: -1.4%>

- Sales revenue decreased due mainly to seasonality in the Document Solutions Unit.

<As Compared with 1H of Fiscal 2023: +23.8%>

- Profit increased due to improved profitability in the Communications Unit as a result of the progress of structural reforms initiated in Fiscal 2023 in addition to the increased sales.

<As Compared with 2H of Fiscal 2023: +92.3%>

- Profit increased due mainly to the absence of a one-time cost in the amount of approximately 8 billion yen in connection with structural reforms of the Communications Unit.

Notes: Business profit represents profit before income taxes of each reporting segment.
Changes from the previous period and business profit ratio are calculated based on millions of yen. 10

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See page 10. Finally, the Solutions Business.

Sales revenue for 1H amounted to JPY536.8 billion. While sales of cutting tools in the Industrial Tools Unit declined due to inventory adjustments, sales of the Document Solutions Unit increased from the effect of yen depreciation etc., which lead to higher sales revenue compared to 1H of the previous fiscal year. On the other hand, compared to 2H of the previous fiscal year, sales revenue declined slightly, mainly due to seasonal factors in the Document Solutions Unit.

Profit was JPY31.8 billion. In addition to the increase in sales revenue, the effect of improved profitability resulting from the structural reform of the Communications Unit initiated in the previous fiscal year resulted in an increase in profit compared to 1H of the previous fiscal year. On the other hand, compared to 2H of the previous fiscal year, profit increased significantly, mainly due to the absence of a one-time restructuring cost of approximately JPY8 billion in the Communications Unit.

1 Financial Results for 1H of Fiscal 2024

2 Financial Forecasts for Fiscal 2024

See page 11. Next, I will explain the financial forecasts for FY2024.

Financial Forecasts for Fiscal 2024 (1)



(Unit: Yen in millions)

	Fiscal 2023	Fiscal 2024 (Forecast)		Change in amount compared with	
		Previous (May 2023)	Revised (November 2023)	Fiscal 2023	Previous Forecast
Sales Revenue	2,025,332	2,100,000	2,050,000	24,668	-50,000
Operating Profit	128,517 (6.3%)	147,000 (7.0%)	120,000 (5.9%)	-8,517	-27,000
Profit Before Income Taxes	176,192 (8.7%)	200,000 (9.5%)	170,000 (8.3%)	-6,192	-30,000
Profit Attributable to Owners of the Parent	127,988 (6.3%)	145,000 (6.9%)	123,000 (6.0%)	-4,988	-22,000
EPS (Basic-yen)	356.60	408.40	347.56		
Average Exchange Rate	US\$ 135 yen	125 yen	140 yen		
	Euro 141 yen	130 yen	152 yen		

Notes:
 Figures in parentheses represent percentages to sales revenue.
 Forecast of EPS (Basic-yen) for Fiscal 2024 as of May 2024 is calculated using the average number of shares outstanding during 1Q of Fiscal 2024, and forecast of EPS (Basic-yen) for Fiscal 2024 as of Nov. 2023 is calculated using the average number of shares outstanding during 1H of Fiscal 2024 (before the stock split planned in Jan. 2024.)

Financial forecasts have been revised due mainly by slower recovery of semiconductor-related and the information and telecommunication markets.

See page 12. Today, we have revised our full-year forecasts for the year ending March 31, 2024.

In the semiconductor-related and information and telecommunications markets, which are our main markets, the recovery in demand that we had assumed in our previous forecast has been delayed, and we expect that the weak sales of smartphones will continue and capital investment in data centers will be restrained. Due to these circumstances, we believe that the sales and profits of the Core Components Business and the Electronic Components Business will not reach our initial forecast.

In light of this business outlook, we have revised downward our forecasts for both sales revenue and profit: sales revenue of JPY2,050 billion, down JPY50 billion from the previous forecast; operating profit of JPY120 billion, down JPY27 billion; profit before income taxes of JPY170 billion, down JPY30 billion; and profit attributable to owners of the parent of JPY123 billion, down JPY22 billion.

Financial Forecasts for Fiscal 2024 (2)



(Unit: Yen in millions)

	Fiscal 2023	Fiscal 2024 (Forecast)		Change in amount compared with	
		Previous (May 2023)	Revised (November 2023)	Fiscal 2023	Previous Forecast
Capital Expenditures	173,901 (8.6%)	275,000 (13.1%)	170,000 (8.3%)	-3,901	-105,000
Depreciation Charge of Property, Plant and Equipment	108,757 (5.4%)	123,000 (5.9%)	115,000 (5.6%)	6,243	-8,000
R&D Expenses	94,277 (4.7%)	115,000 (5.5%)	106,000 (5.2%)	11,723	-9,000

Note: Figures in parentheses represent percentages to sales revenue.

Forecasts of capital expenditures, depreciation charge of property, plant and equipment and R&D expenses have been revised as well.

See page 13. Capital expenditures are also revised downward from the previous forecast by JPY105 billion to JPY170 billion, depreciation charge of property, plant, and equipment by JPY8 billion to JPY115 billion, and R&D expenditures by JPY9 billion to JPY106 billion.

Sales Revenue Forecasts by Reporting Segment for Fiscal 2024



(Unit: Yen in millions)

Sales Revenue by Reporting Segment	Fiscal 2023		Fiscal 2024 (Forecast)				Change in amount compared with	
	Amount	Component Ratio	Previous (May 2023)		Revised (November 2023)		Fiscal 2023	Previous Forecast
			Amount	Component Ratio	Amount	Component Ratio		
Core Components Business	592,376	29.2%	620,000	29.5%	567,000	27.6%	-25,376	-53,000
Industrial & Automotive Components Unit	199,194	9.8%	225,000	10.7%	221,000	10.8%	21,806	-4,000
Semiconductor Components Unit	364,579	18.0%	365,000	17.4%	315,000	15.3%	-49,579	-50,000
Others	28,603	1.4%	30,000	1.4%	31,000	1.5%	2,397	1,000
Electronic Components Business	378,536	18.7%	390,000	18.6%	358,000	17.5%	-20,536	-32,000
Solutions Business	1,068,597	52.8%	1,115,000	53.1%	1,146,000	55.9%	77,403	31,000
Industrial Tools Unit	308,406	15.2%	315,000	15.0%	325,000	15.8%	16,594	10,000
Document Solutions Unit	434,914	21.5%	455,000	21.7%	473,000	23.1%	38,086	18,000
Communications Unit	207,793	10.3%	225,000	10.7%	231,000	11.3%	23,207	6,000
Others	117,484	5.8%	120,000	5.7%	117,000	5.7%	-484	-3,000
Others	23,403	1.2%	20,000	0.9%	18,000	0.9%	-5,403	-2,000
Adjustments and Eliminations	-37,580	-1.9%	-45,000	-2.1%	-39,000	-1.9%	-1,420	6,000
Sales Revenue	2,025,332	100.0%	2,100,000	100.0%	2,050,000	100.0%	24,668	-50,000

See page 14. This shows sales revenue by reporting segment.

Compared to the previous forecast, we have revised downward by JPY53 billion for the Core Components Business and JPY32 billion for the Electronic Components Business, while we have revised upward by JPY31 billion for the Solutions Business.

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



(Unit: Yen in millions)

Business Profit by Reporting Segment	Fiscal 2023		Fiscal 2024 (Forecast)				Change in amount compared with	
	Amount	% to Sales Revenue	Previous (May 2023)		Revised (November 2023)		Fiscal 2023	Previous Forecast
			Amount	% to Sales Revenue	Amount	% to Sales Revenue		
Core Components Business	89,475	15.1%	86,000	13.9%	65,000	11.5%	-24,475	-21,000
Industrial & Automotive Components Unit	24,743	12.4%	32,000	14.2%	24,500	11.1%	-243	-7,500
Semiconductor Components Unit	67,702	18.6%	53,000	14.5%	39,500	12.5%	-28,202	-13,500
Others	-2,970	—	1,000	3.3%	1,000	3.2%	3,970	0
Electronic Components Business	44,064	11.6%	55,000	14.1%	24,500	6.8%	-19,564	-30,500
Solutions Business	42,239	4.0%	79,000	7.1%	85,000	7.4%	42,761	6,000
Industrial Tools Unit	23,279	7.5%	26,000	8.3%	22,000	6.8%	-1,279	-4,000
Document Solutions Unit	33,706	7.8%	40,000	8.8%	51,000	10.8%	17,294	11,000
Communications Unit	-11,729	—	3,000	1.3%	5,500	2.4%	17,229	2,500
Others	-3,017	—	10,000	8.3%	6,500	5.6%	9,517	-3,500
Others	-28,795	—	-45,000	—	-43,000	—	-14,205	2,000
Total Business Profit	146,983	7.3%	175,000	8.3%	131,500	6.4%	-15,483	-43,500
Corporate Gains and Others	29,209	—	25,000	—	38,500	—	9,291	13,500
Profit Before Income Taxes	176,192	8.7%	200,000	9.5%	170,000	8.3%	-6,192	-30,000

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See page 15. This shows business profit by reporting segment.

Compared to the previous forecast, we have revised the profit forecast downward by JPY21 billion for the Core Components Business and JPY30.5 billion for the Electronic Components Business, while we have revised the forecast upward by JPY6 billion for the Solutions Business.

In 2H, we expect the severe business environment to continue, but we will continue to build a system to increase production and improve productivity so that we can steadily improve profitability during the demand recovery period.

(1) Interim Dividend

The interim dividend will be 100 yen per share, same as the interim dividend of Fiscal 2023.

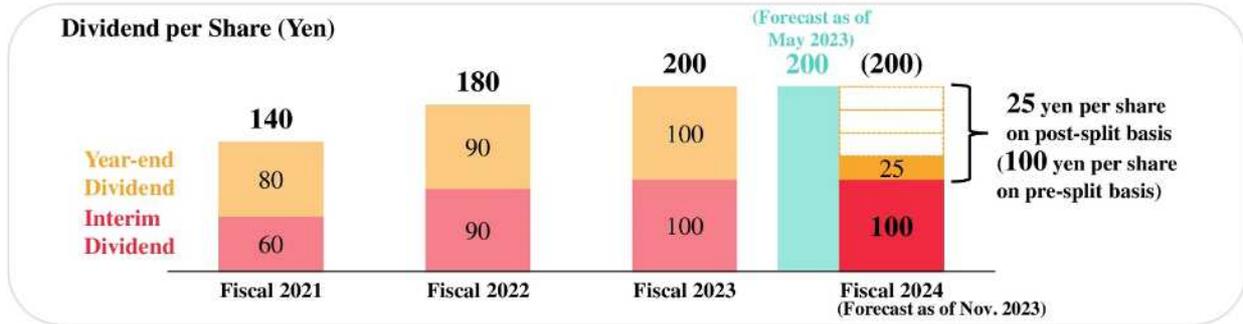
(2) Year-end Dividend

The year-end dividend is forecasted to be 25 yen per share on post-split basis.

(Forecast of dividend per share on an annual basis is practically the same as the previous forecast as of May 2023.)

<Stock Split>

The stock split will be undertaken on the record date of Dec. 31, 2023, at the ratio of 4 for 1 of all common shares, with the aim of increasing the liquidity of the stock and expanding its investor base through a reduction in the price of share-trading units.



See page 16. Finally, I will explain about dividends.

The interim dividend per share for the current fiscal year is JPY100, the same amount as the previous interim dividend.

The year-end dividend is projected to be JPY25 on a post-stock-split basis, but JPY100 on a pre-stock-split basis, leaving the annual forecast essentially unchanged. We will continue to strive to expand business performance and improve shareholder returns. That's all from me.

We look forward to your continued support of our company. Thank you for your attention.

Question & Answer

<Questioner 1>

[Q]: First of all, I would like to ask you a little bit more about the future trend in 3Q and 4Q by business, which are the Core Components Business, the Electronic Components Business, and the Solutions Business.

I think it is common for all companies to see flat or sluggish growth for components business, as you see the same situation in the Core Components Business and the Electronic Components Business from 1H to 2H, but what kind of seasonality do you see for 3Q and 4Q, respectively? On the other hand, I think the Solutions Business will have a slightly different trend, so please give me a rough idea of the changes in sales and profits in 3Q and 4Q.

[A]: We assume that 2Q was almost the bottom. For the Core Components Business and the Electronic Components Business, we expect 3Q and 4Q to be almost flat from 2Q, and the revised forecast is based on our expectation that the Solutions Business will rise further in 3Q and 4Q.

[Q]: I believe your company has a very seasonal customer base in the smartphone field. I feel a little strange with the forecasts that the Electronic Components Business and the Core Components Business, especially the Semiconductor Components Unit, will remain flat in 3Q and 4Q.

[A]: The Electronic Components Business always drops considerably in 4Q, but this year, since 2Q and 3Q are not going up as usual in the first place, we do not expect a major decline in 4Q.

[Q]: I see. What about the Core Components Business? I thought it would affect the Semiconductor Components Unit quite a bit.

[A]: In terms of the Core Components Business, looking at the current situation, it looks 3Q is likely to be a little higher than 2Q, but we would like to be little conservative and see 3Q as flat here.

[Q]: Is there a view that the Core Components Business, if I put it another way, will not fall too much in 4Q?

[A]: Yes, that's right. Some of the components used in cell phones will drop, but other than that, it's already pretty much down. Especially, the sales of SMD packages, etc. are somewhat returning, so we believe that they are offsetting each other and remaining unchanged.

[Q]: I understand. Regarding the Core Components Business and the Electronic Components Business in 3Q and 4Q, am I correct to assume that the production plan behind this will remain mostly the same as it is now, and you can proceed without much increase or decrease?

[A]: I don't think there will be much increase or decrease. Of course, there are some fluctuations among the components, but I believe that the total will not change much.

[Q]: I understand. Second, please tell me how the positioning of the medium-term management plan may change due to this forecast revision. The medium-term management plan was just released at the time of the announcement of the annual financial results for last fiscal year. While the investment will be reduced by about JPY100 billion this time, you are aiming for ROE of 7% and pre-tax profit margin of 14% in the medium term. I think those are quite high targets now.

If these target figures will not change over the medium term, I think that it is difficult to achieve the ROE target, unless you consider some additional measures or balance sheet measures. In light of the business environment and performance this fiscal year, do you have any thoughts on what additional measures, including those on the balance sheet, are necessary to achieve the medium-term management plan?

[A]: As you know, until the previous fiscal year, we had basically considered continuing to hold KDDI shares. However, I am currently thinking about how these shares should be utilized and based on that, what the medium-term management plan should be and I would like to explain about those topics in the next fiscal year.

[Q]: Just to reconfirm, do you mean this is a different idea from using that as collateral to borrow JPY500 billion and use it for M&A or investment?

[A]: Yes. That is what I mean.

<Questioner 2>

[Q]: I have two questions.

First is the change from 1H to 2H. I recognize that in all segments, you plan to increase both sales revenue and profits in 2H more than in 1H. Please let us know if you have any kind of set volume forecast for the Core Components Business and the Electronic Components Business against the assumption that profits will increase, or sales revenue will increase in 2H compared to 1H.

[A]: Regarding the Core Components Business, to be more precise, semiconductor processing equipment components were slightly higher than in the previous year, although they fell below expectations.

The major drop was seen in SMD packages in ceramic packages in the Semiconductor Components Unit, which are mainly used for electronic components, and this drop was even greater than the drop in the market, including the inventory adjustment phase.

And the Electronic Components business fell more than the market, including inventory adjustment, but the inventory adjustment is almost over, and demand is returning to its original level. Therefore, we have reflected this in the forecasts for 2H.

[Q]: I understand. You mentioned earlier that 4Q will not drop as in previous years, what is the background there? Could you please explain again?

[A]: Normally, cell phone components make a very large increase in 2Q and early 3Q, followed by a drop in 4Q, but this fiscal year, we were unable to make a large increase in electronic components in 2Q and 3Q. Therefore, the impact of the large drop toward 4Q will be seen in some ceramic package components, but it can be offset by other components. This is the background.

[Q]: Yes, I understand. Thank you very much.

The second point of my question is that the profit of the Electronic Components Business has decreased significantly, and I would like you to explain this separately for KYOCERA itself and KAVX. If possible, could you please explain the changes from the assumptions made at the beginning of the period for each of the major products, MLCCs, crystal devices, connectors, etc.?

[A]: First, both KYOCERA's electronic components business and KAVX are down. If anything, KAVX's drop is a bit larger.

KAVX built a new plant in Thailand, but it did not contribute to operations at all in 1H, and only depreciation charge of property, plant and equipment were incurred, resulting in a large profit decline.

By component, first of all, KYOCERA electronic components business' capacitors have fallen sharply due to the impact of reduced production of cell phones. Capacitors and crystal devices, which is oscillating components, both fell very sharply.

Also, KAVX produces a very large number of automotive parts and KAVX sells a very large number of automotive parts in Europe. However, the recovery of the European car market was very weak compared to that of Japan and the US, and this was one of the reasons for the KAVX's very poor performance.

[Q]: I think MLCC tended to increase seasonally in 2Q for smartphones in North America in past years, but there was not much increase here, is that correct?

[A]: No, there was not much as we had expected.

<Questioner 3>

[Q]: First, your company has reduced and postponed capital expenditures investment for 1H. What changes have you made to your capital expenditures for this fiscal year compared to the plan at the beginning of the fiscal year, and what are the details by segment?

[A]: We expect capital investment to be about JPY100 billion less than initially planned, of which about 60% will be for the Core Components Business, 30% for the Electronic Components Business, and about 10% for the Solutions Business.

[Q]: What are the details of each of these, and also whether they were postponed or cancelled?

[A]: In the Core Components Business, capital investment is mainly for organic packages and boards for semiconductors and ceramic components for semiconductor processing equipment. All of these are postponed.

In the Electronic Components Business, in Japan, the target is MLCCs and the target in Thailand is tantalum capacitors, while investments in MLCCs have also been postponed. In the Solutions Business, there is a small portion, but basically, we are postponing the investment.

[Q]: Yes, I understand. Basically, do you mean you are changing the timing of equipment installation without much change to the production increase plan itself?

[A]: Yes, that is correct.

[Q]: I see. Thank you very much.

Second question, your company is taking actions for the future now, while utilizing the synergy between KYOCERA itself and KAVX in the Electronic Components Business, and working to expand its market share considerably over the next three years. Please tell me about your progress in 1H toward improving synergies.

Also, in terms of the Solutions Business, I believe that there are many businesses in this area that will require a considerable shift in the business model itself, including the smart energy business. Please also tell me about the progress you are making in this area.

[A]: First, let me answer how the synergy between KAVX and KYOCERA is progressing. I may have mentioned this last time, but the integration of our worldwide sales forces was completed in 1H. We have established a structure that allows KAVX sales and KYOCERA sales to work together in each region.

In addition, as for the KAVX plant in Thailand, KYOCERA's production engineers are playing a central role in building a new automated production line, with KYOCERA's production engineers and KAVX production engineers working together to bring automation to a level higher than that of Japan. Mainly on the production side, we have started to bring in KYOCERA's production engineering support to KAVX.

And, with regard to smart energy and renewable energy in the Solutions Business, we are switching from conventional product sales to energy sales. In the latter half of 1H, we were able to start a business of collecting renewable energy and selling electricity to KYOCERA's factories. The amount of electricity we are able to collect is increasing rapidly, and we expect this to increase gradually in 2H and beyond.

As for cell phones, reduction in consumer sales is proceeding as planned, and the shift to a business specializing in the B2B portion of the business is progressing as planned. In addition, the development of B2B base stations is also progressing as planned. In general, the Solutions Business is progressing as planned.

[Q]: As an addition, in the Electronic Components Business, what about crystal devices?

[A]: Regarding crystal devices, crystal oscillator devices of KYOCERA's electronic components business are currently falling more than the decline in cell phones, including in terms of inventory adjustments.

In anticipation of the future, KAVX has acquired one company for high-end crystal oscillator components used in satellites and other applications. We believe that we have established a structure that will enable us to strengthen our high-end crystal components for use in satellites, etc., which we had not been doing before, starting in 2H.

[Q]: Regarding crystal devices, I believe you mentioned that your company also had plans to produce automotive products at its overseas plants. How is it coming along?

[A]: That is being prepared at KYOCERA's plant in Vietnam as planned.

[Q]: This is in preparation.

[A]: Yes.

<Questioner 4>

[Q]: First, let me ask you a question about capital allocation related to the medium-term management plan. In your three-year capital investment plan, you are planning to make a very strong investment of JPY850 billion. This is well off the plan in the first year, and it seems very unlikely that demand will recover in a spectacular manner in the next fiscal year. Is it correct to think that you will completely review the capital allocation?

[A]: At this stage, I think it is necessary to review the situation, perhaps with a one-year delay.

[Q]: From a relative standpoint, the Electronic Components Business is quite inferior to other companies. There is still an oversupply of semiconductor packages, and I don't think you are in a situation where you can make very large capital investments. I don't think a one-year delay will be enough, but in that case, do you have any plans to change your basic strategy?

[A]: We expect a delay of one to two years for the semiconductor-related business, but the growth rate over the next few years will follow about two years behind. Therefore, we are planning to make the same scale of investment about two years later.

[Q]: I see. I understand. Thank you very much.

The second question is specific to the Electronic Components Business. You mentioned that sales for cell phones fell. In fact, I think 2Q was probably quite good for cell phones. Looking at the figures of other companies, it is clear that sales for cell phones were good.

It is possible that only your company did not do well, or that you are losing market share. If your company's market share is declining, or if your company is experiencing a large inventory adjustment, could you please explain the reasons for this?

[A]: Regarding MLCC, I don't have the detailed data, but I think the market share has probably declined a bit. The factor is probably that MLCC as a whole still has a surplus when all manufacturers are added together. Therefore, we predict that they were replenished toward manufacturers with high market shares.

[Q]: I see. Am I correct in assuming that since your company did not try to change prices, the timing of the recovery is delayed compared to other companies?

[A]: Yes.

[Q]: I see. I understand. Thank you very much. How about crystal devices? With the entry of Chinese manufacturers, your company is probably not getting orders from the low-end market.

[A]: We are not very strong in the low-end market to begin with, so we do not have any information on the market share being taken by competitors. However, I think there are circumstances where the demand itself for small crystal devices has fallen off a bit more than cell phones.

[Q]: I understand. Thank you very much.

Third, you commented that the method of holding KDDI shares will be reviewed. Just one year ago, you announced that you would be borrowing JPY500 billion by pledging the shares as collateral, and in just one year, your basic thinking has changed considerably. Please tell me about the background that led you to this thinking. What changes have led you to reconsider?

[A]: At this year's General Meeting of Shareholders, the percentage of votes in favor of reappointment for myself and the Chairman was lower than expected. One of the triggers that led me to thinking was that I felt it would be a bit difficult to continue as we are now.

<Questioner 5>

[Q]: I have only one question.

Comparing the previous forecast with the current forecast, the change in profit relative to the change in sales revenue is a little large for both the Core Components Business and the Electronic Components Business. Especially in the area of the Electronic Components Business and the Industrial & Automotive Components Unit, there seems to be a bit of imbalance between the sales revision and profit revision.

I am a little concerned about whether or not there is any structural damage to the business, and I was wondering if you could explain this to me. If the original plan was a little too strong, or the cost of materials has gone up a little due to inflation, etc., no worries if that is the reason. Let me check to ask if something bad is happening.

[A]: On the Electronic Components Business, the main reason is very much that demand fell and new capital expenditures, such as those in KAVX, did not contribute to operations at all. Although we have lost a little capacitor market share, we do not believe that there has been any problem that has fundamentally shaken our business.

In the Core Components Business, despite aggressive investment in organic packages and boards in particular since last year, the proportion of depreciation charge of property, plant and equipment has increased, pushing up the cost of goods sold. I believe that these are the two reasons.

[Q]: I see. Do you mean that this happened because, although you have basically continued to invest in growth, there has unfortunately been a misbalance between investment and demand, and a misalignment in timing?

[A]: That's right.

<Questioner 6>

[Q]: I also have one point. What are your thoughts on the Document Solutions Unit?

This time, your company has made an upward revision only for this part, and seems to be forecasting a large improvement in 2H of the year. I believe that the improvement in foreign exchange rates, particularly in Europe, will probably have some impact. On the other hand, in 2H of last fiscal year, having a backlog of orders, each company had been able to ship orders that had been constrained by the semiconductor shortages. Therefore, it seems to me that the plan is for a fairly large increase in sales revenue and profit, even though the hurdles are rather high. Please tell me about your thoughts here. That is all.

[A]: In 1H, the sales volume itself did not increase much in Europe and the United States. Our basic strategy is to launch new products in 2H to increase sales volume in 2H.

[Q]: If so, would that mean that you will be launching new products in 2H to increase market share, and profitability will improve accordingly?

[A]: Yes, basically yes.

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

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