

Outline of Q&A on Financial Presentation for the Year Ended March 31, 2021
(Held on April 27, 2021)

- * Fiscal year ended March 31, 2021: fiscal 2021
- Fiscal year ending March 31, 2022: fiscal 2022
- Fiscal year ending March 31, 2023: fiscal 2023
- 1st quarter: 1Q, 2nd quarter: 2Q, 3rd quarter: 3Q, 4th quarter: 4Q

1. Business forecast for fiscal 2022

Q: For fiscal 2022, you are forecasting a 200 billion yen increase in sales revenue compared with fiscal 2021, while operating profit is forecast to increase by about 35 billion yen in real terms excluding impairment loss from fiscal 2021. Why is the extent of the increase in profit less than that of sales revenue?

A: This is due to increases in depreciation charge and R&D expenses.

Q: For fiscal 2022, there is an impression that sales revenue and costs will rise sharply, and the extend of profit increase will be held back. If sales revenue does not increase, will expenses also decline? Or, would those expenses not decline because they relate to future projects?

A: If there was a specific event such as COVID-19 that cause a significant decline in sales revenue, expenses would be reduced, but since we are involved with a great many investment projects for the future, expenses may not be reduced.

Q: I'd like to ask about the seasonality of sales. Smartphone-related demand is currently at a high level, and it's being said that demand is being catered to excessively. What are your thoughts on this?

A: Demand for smartphone-related components usually picks up in 2Q, but demand has been at a relatively high level from 1Q in fiscal 2022. When formulating plans for sales revenue and profit for fiscal 2022, we expect a split of around 45% and 55% between the first half and the second half of fiscal 2022.

Q: Will demand for automotive-related components differ from the demand for smartphone-related components?

A: The situation differs depending on the auto manufacturer. For the sensor-related components we have been working on for some time, we think there is a slight impact from reduced production in the auto manufacturer, but there has been no major impact on ADAS-related electronic components.

Q: Are you concerned about there being excessive demand for components in the first half, and declining demand in the second half of fiscal 2022?

A: There is strong demand for semiconductor-related components, and we are fielding so many business inquiries that we will not be able to fulfill demand even with the current plan for expanded production. This situation will likely continue in the second half of fiscal 2022.

Q: Why is there a large difference between operating profit and business profit in fiscal 2022?

A: The main factors are increased expenses in basic research and head office divisions, as well as the impact of foreign exchange. There are no special factors.

2. Business investment

Q: What areas will you focus on in terms of the capital expenditures and R&D expenses that will be increased in fiscal 2022? Additionally, I'd like to ask the background to those developments, and an image of investment-return.

A: There will be large increases in capital expenditures for ceramic packages and organic packages. This is against a backdrop of a historically strong semiconductor market. With organic packages in particular, supply is not keeping up with demand on a worldwide basis, and we will work to introduce equipment at a new plant. As these are relatively profitable products, if revenue increases, we believe we will be able to recover our investment. We expect R&D expenses to increase mainly in relation to communications. There will be 5G-related businesses increases, such as local 5G systems and components for 5G base stations.

Q: I'd like to ask more detail about increases in production capacity for organic packages.

A: We have not been able to keep up with demand for organic packages at all. We plan to bring the Kyoto Ayabe No. 3 Plant up to full capacity during fiscal 2022, and we expect sales revenue to increase more than 20% from fiscal 2021.

Q: By how much do you expect to increase production capacity of 5G-related components?

A: We plan to increase production capacity of package-related components by around 15%, and capacitors by about 40%. We expect that demand of capacitors for automotive and base station-related will increase.

Q: Is fiscal 2022 positioned as one that requires making significant capital expenditures for medium-term growth, even if at the sacrifice of short-term profits?

A: That is correct. Looking at the current demand situation, we believe we will need to make investments at around the same level as fiscal 2022 for fiscal 2023. As the generation progresses, there will be requests that cannot be fulfilled using older production equipment, and we will need to continue making substantial investments. SMD packages have become thinner, and crystal oscillators have gotten smaller. We need to continue making investments that cater to customer demands.

Q: You also have the option of raising prices on the semiconductor packages and electronic components you are investing heavily in. What are your thoughts on that?

A: For semiconductor packages, our strategy is to ultimately raise unit prices by increasing the percentage of high-functioning products, such as compact or finely wired models, and reducing the percentage of older products. As with electronic components, it is becoming harder to generate profit with large crystal oscillators, so we are trying to increase the share of cutting-edge components to improve profitability. For both of these product lines, we do not intend to simply raise the prices of the products we currently offer.

3. Conditions by reporting segment

【Semiconductor Components Unit】

Q: You have planned a slight increase in business profit for the Semiconductor Components Unit. Has the burden of depreciation charge had an affect on this?

A: That is correct. To cater to the brisk demand in the semiconductor market, we need to increase production capacity. As the amount invested will be greater than in normal years, we also expect depreciation charge to rise.

【Electronic Components Business】

Q: In a normal year, sales revenue and profit from the Electronic Devices Group declines in 4Q compared with 3Q due to seasonal factors, but in fiscal 2021 both sales revenue and profit rose. What were the factors behind this?

A: Industrial market-related sales at AVX Corporation (AVX) recovered towards 4Q. Also, in most years, smartphone-related sales decline significantly in 4Q, but the extent of the decline was minimal in fiscal 2021.

Q: How do you see the situation in the immediate future?

A: In addition to AVX recovering, smartphone-related demand has been steadier than usual. 5G is entering a period of widespread adoption, and electronic component demand is unusually strong. While capacitors have been getting smaller, we now need to make crystal oscillators smaller as well. There is a recognition that we are a little ahead of the curve with crystal miniaturization and in fiscal 2022, we do not expect to see significant fluctuations in business performance.

Q: Do you think that your customers' distribution inventory is also at a healthy level?

A: Yes, we do. AVX was having trouble due to inventory for a time, but inventory has declined and demand has increased now. The same goes for smartphone-related inventory. There are some components being rushed for delivery by customers.

【Communications Unit】

Q: Why do you forecast a significant increase in sales revenue in fiscal 2022?

A: In fiscal 2021, mobile phones sold poorly due to the impact of COVID-19. In fiscal 2022, we are receiving many orders, in part as a reactionary effect of that.

【Smart Energy Business】

Q: In addition to your assumptions regarding sales revenue and profit for fiscal 2022, what is the status of clay-type storage batteries?

A: During the first half of fiscal 2021, we were hardly able to conduct sales activities due to the COVID-19 pandemic. In fiscal 2022, we expect to provide electric power services to small and medium enterprises, and also work on large solar projects. The situation has improved compared with fiscal 2021, and we are forecasting double-digit growth in sales revenue in fiscal 2022 and expect to move into profitability for fiscal 2022. Regarding clay-type storage batteries, we have commenced manufacturing and begun sales in limited quantities, and we expect to initiate full-scale sales activities in the second half of fiscal 2022.

【Others】

Q: What is the reason for the business loss increasing by 11.9 billion yen in fiscal 2022?

A: We expect to incur new business development costs, such as the GaN (Gallium Nitride) System Business.

【Corporate and others profit】

Q: Over the two years from the fiscal year ended March 31, 2020 to your plans for fiscal 2022, you have planned a 22 billion yen decrease in profit. Why is that?

A: In addition to investing in basic research, we have been actively pursuing DX-related investments since fiscal 2021. Additionally, the Corporate division is responsible for costs relating to new business projects before they enter mass production, those costs have increased significantly from fiscal 2021 and we plan to continue increasing them in fiscal 2022.

Q: What kinds of projects does that include?

A: In fiscal 2022, the GaN System Business and AI Collaborative Robot System Business are play significant roles.

Q: While you have planned profit of 20 billion yen for fiscal 2022, do you expect to maintain a similar level moving forward?

A: We expect it to continue for the next two to three years. We want to promote digitization and invest in 5G-related without falling behind.

4. Reorganization of Business Structure

Q: I'd like to ask any important points to note following the organizational restructuring. I think there will be changes in the utilization of resources and swifter decision making, but what kinds of schemes are you thinking of in terms of coordination between divisions or decisions on M&A actions?

A: The previous organization consisted of 16 divisions, and since exchanges between personnel had dropped off, we have worked to consolidate related technical divisions and encourage more lively exchanges. We think this will proceed in a good direction, but the optimum organizational structure may be something to be considered on a yearly basis.

Q: For instance, the Component Business has been split into the Core Components Business and Electronic Components Business, but I think there are some areas that require the sharing of resources. Additionally, the Solutions Business will need to respond flexibly to personnel allocations with the R&D division at its core. Isn't it more necessary to consider organizational revisions flexibly rather than making the revisions periodically?

A: As there are many areas that are common technology-wise, we were hesitant to split up the Core Components Business and the Electronic Components Business, but we prioritized the fusion between AVX, which has been made a wholly-owned subsidiary, and the Electronic Components. However, three years from now it might be integrated. Also, taking automotive cameras as an example, previously they were single-function cameras, but in the future, there will be a shift to sensor cameras that incorporate AI. Those are currently being produced by the Core Components Business. However, on things like whether they should be included in the Core Components Business or in the Solutions Business, we will have frequent discussions and respond flexibly going forward.

Q: Do you think you will be more active on the M&A activities that are primarily handled by the Headquarters?

A: Over the past four years we have actively pursued M&A activities, but since fiscal 2022 will be spent verifying the progress of those acquisitions, we don't expect the pace of M&A actions to pick up.

5. Achievement of medium-term target

Q: You mentioned the goal of achieving 2 trillion yen in sales revenue within three years. Are you also aiming to achieve 300 billion yen in profit before income taxes over that same period?

A: That is correct.

Q: When do you expect to achieve an ROE of 8%? I think shareholders' equity will increase gradually, but do you think it will be possible to achieve an ROE of 8% without major changes to the balance sheet?

A: Our estimates suggest that if we can achieve sales revenue of 2 trillion yen and 300 billion yen in profit before income taxes, we should also be able to reach an ROE of 8%, but depending on circumstances, we may consider aiming for 8% ROE with our capital strategy.

Q: It is a plan for large-scale investments while seeing future sales growth on the horizon. Have you become more confident about achieving 2 trillion yen in sales revenue and 300 billion yen in profit before income taxes three years from now?

A: We experienced difficulties these past two years due to the COVID-19 pandemic and other factors, but we believe the operating business environment will continue to improve.

Cautionary statement

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