



## **Outline of Q&A on Financial Presentation for the Nine Months Ended December 31, 2022**

**(Held on February 1, 2023)**

(Note: Fiscal periods used in this document)

Fiscal year ending March 31, 2023: fiscal 2023

1st half (from April to September): 1H

1st quarter (from April to June): 1Q

Other fiscal years, half-year and quarterly period are shown in the same manner.

### **1. Situations regarding fiscal 2023**

#### **• Financial forecasts**

Q: Please elaborate why forecasts for profits had been revised downward. Is the increase in energy costs, etc. the reason for that?

A: It is true that the increase in costs for raw materials, energies, etc. is one of the factors. However, the primary reason for the revision is the decrease in orders for smartphone components, which had been more severe than our estimate.

Q: Please elaborate why downward revision of profits for the Semiconductor Components Unit as well as the Electronic Components Business had been particularly large. Also, please share your outlook for those businesses, by breaking it down into ceramic packages and organic packages and boards for the Semiconductor Components Unit, and Kyocera's electronic components and KYOCERA AVX Components Corporation ("KAVX") for the Electronic Components Business.

A: The reason for the decline in the Semiconductor Components Unit is a significant decrease in sales of ceramic packages for crystal devices. As for the Electronic Components Business, KAVX's sales are not expected to decline much, since it is mainly for automotive-related applications. On the other hand, Kyocera's electronic components expect a drop in sales, since a high percentage of sales are for smartphones.

Q: Looking at the 4Q sales forecast, the figures had been revised downward by more than 20% for the Semiconductor Components Unit and more than 10% for the Electronic Components Business. Can such a rate of decline be explained only by declining sales of ceramic packages for crystal devices and electronic components for smartphones? Are there other factors, such as the effect of the inventory adjustments by customers of more varied range of products or applications?

A: Although it was not that much of an impact but we have also been a bit affected by the US-China relations, which has prevented shipments of semiconductor processing equipment to China, and sales of organic packages and boards related to data centers have weakened slightly.

Q: Please elaborate why the business profit of the Solutions Business will improve from 3Q to 4Q, if excluded the impact of one-time costs expected to incur in 4Q.

A: The main reason is the price increase in the Document Solutions Unit. We expect that that will take effect from 4Q.

Q: Regarding the Corporate gains and others, a loss of approximately 10 billion yen is expected in 4Q. What is the reason for the loss?

A: The primary factor is a lump-sum property tax of approximately 5 billion yen, which will be recorded in 4Q.

Q: Please explain about the one-time costs that has been factored in the financial forecasts of fiscal 2023.

A: We have recorded the litigation cost in the amount of approximately 7 billion yen during 2Q and the additional cost in connection with pension obligations in the amount of approximately 3 billion yen during 3Q. For 4Q, we have included one-time costs in the amount of 7 to 8 billion yen in the Communications Unit for business transformations.

#### • **Smartphone markets**

Q: Please elaborate the situation regarding production adjustment of smartphones. When did the effects on components such as ceramic packages and MLCCs appear? Also, please share your outlook of operation as well as inventory levels, including inventory of customers, during 4Q, and also the outlook for 1Q of fiscal 2024.

A: The smartphone components, such as SMD packages for crystal devices and SAW filters, got impacted from the latter half of 3Q. The orders decreased by month by month, but we believe we hit the bottom now and the orders are far lower than actual demand. We believe crystal devices and SAW filters are heavily stocked by customer manufacturers. As for the Electronic Components Business, since sales proportion to

Chinese markets, which the heavy adjustments are undergoing, is low, the impact was limited as compared with SMD packages.

The figures for the Electronic Components Business will gradually improve after 1Q of fiscal 2024, but as for SMD packages for crystal devices, we believe the situation will be difficult until 1H of fiscal 2024.

• **Inventory situations**

Q: The inventories as of the end of 3Q are almost flat as compared with that of 2Q, but I believe it is quite high compared to the past. Now that sales are falling, how do you assess the current inventory levels? Also, please share how you expect the inventory levels as of end of 4Q.

A: We believe the current inventory levels are not in excess, since the business size have increased as compared with the past. As for smartphone components, there is a tendency for inventories to increase every fiscal year in 4Q because some components cannot be supplied in time for peak orders if inventories are not built up. We expect inventories to increase, compared to 3Q, by several tens of billions of yen in 4Q of fiscal 2023 as well.

**2. Situations by reporting segment**

• **Core Components Business**

Q: Regarding ceramic packages for crystal devices.

Chinese manufacturers are increasing their sales volume, and there is a risk that smartphone manufacturers would choose their ceramic packages to lower the prices of smartphones. How do you see the situation?

A: We are intentionally shifting our focus to small SMD packages. Chinese manufacturers are gaining market share in the large size packages, such as 3216, but I believe it is still difficult for them to manufacture the small packages. Therefore, I assume we still have a large market share for small size packages for crystal devices.

• **Electronic Components Business**

Q: Please share us the situation regarding smartphone components. Sales of which components, MLCCs, crystal devices, connectors, etc., is expected to decrease in 4Q?

A: The Electronic Components Business manufactures smartphone components such as SAW filters, in addition to MLCCs, crystal devices and connectors. Within these components, the components that we sell the most to Chinese customers are SAW filters. Therefore, the sales of SAW filters are decreasing heavily.

Q: It has been said that there was a shortage of crystal devices for a long time, and because of this, the supply situation of crystal devices has often been quite different from that of other electronic components. As a result, I assume the inventory adjustments for crystal devices are very large. How do you view the situation?

A: I think some smartphone manufacturers have built up quite a bit of inventory. Therefore, I believe that the inventory level of crystal devices is higher than that of other components such as capacitors.

Q: It is said that demand of MLCCs recover relatively quicker as compared with other electronic components. Please elaborate the situation.

A: The sales of MLCCs always tend to fall quickly and recover quickly. Therefore, we believe that the sales of MLCCs will recover fastest within the Electronic Components Business.

• **Solutions Business**

Q: Please share your outlook regarding the telecommunications equipment business in the Communications Unit. How do you plan to improve its business performance, and when will the business turn profitable?

A: As for the telecommunications equipment business, we were able to generate double-digit profit margin until fiscal 2022. In fiscal 2023, however, our sales volume has dropped by about half as our mobile phone handset shipment for KDDI fell sharply after the rush-in demand in fiscal 2022. If this situation continues, we will not be able to continue the business, so we are now considering reducing the number of mobile phone handset models and we plan to sort out during 4Q. From fiscal 2024 onward, we expect our smartphone sales to decline further. Therefore, we are working to shift the axis of our business to B2B and intend to retain the mobile phone handset business, including kitting services, mainly for corporate customers. Also, we are currently working on shifting our focus to base stations and equipment for 5G millimeter wave. It will take two to three years for this effort to take off. However, we are planning to set these new businesses as the core of our telecommunications equipment business. In fiscal 2024, the loss is estimated to shrink.

Q: If you exclude the one-time costs expected to incur in 4Q, would the figures for the Communications Unit improve from the financial forecasts announced in October 2022, or have you already included the one-time costs in the forecast announced in October 2022?

A: We did not expect to incur one-time costs when we made our financial forecast in October 2022. Since business situation regarding the Communications Unit was deteriorating during 1H, we made our forecast based on worst-case scenario. However, in fact, the situation was better than we had anticipated.

Q: What results do you expect in fiscal 2024 and onward as a result of one-time costs in the Communications Unit expected to incur during 4Q?

A: We believe that we will not see major improvements of profit only with the one-time costs in the Communications Unit expected to incur during 4Q. If the business improves because of this change in business structure, it will have a gradual effect on profits.

Q: In terms of the revision range of the business profits, the Industrial Tools Unit has been revised downward the most. Please share your perception of the business environment as well as the background to the downward revision, and the thoughts for fiscal 2024 regarding the Industrial Tools Unit.

A: The downward revision in the Industrial Tools Unit is due to pneumatic and power tools, impacted by the decline in housing starts in North America. We expect cutting tools to recover in fiscal 2024 as car production recovers. However, we believe that it will be difficult for pneumatic and power tools to recover while interest rates in the United States continue to rise.

### **3. Other topics**

#### **• Capital expenditures**

Q: You plan to invest in areas where demands are expected to be strong in the Semiconductor Components Unit and the Electronic Components Business. However, from my point of view, this will increase the risk of inventory buildup when the demand settles, leading to future downward revisions of the forecast. Do you have any thoughts to rethink the investment plan, given the current situation?

A: As for demands of cutting-edge semiconductor processing equipment and organic packages and boards, even once there is an adjustment, it will grow over the long term. It will take time to enhance production capacity, so we are willing to continue investment. As for the Electronic Components Business, we are considering increasing production of capacitors etc., but the timing may be shifted back a little. Regarding ceramic packages, we are planning to invest mainly in Vietnam, but there is a possibility to review or delay the investment plan.

Q: I believe it is worth continuing to invest if it is for the cutting-edge semiconductor products. Will you concentrate your investment on cutting-edge areas?

A: Yes.

#### **• Financial targets**

Q: In Kyocera IR Day held in November 2022, you presented us the targets of 3 trillion yen sales revenue, profit before income taxes of 600 billion yen, and ROE of 10%. However, business environment has changed significantly in the past few months. Are there any changes to this target? Please share us your thoughts. Also, please share your current ideas on your vision of the cash flow allocation over the three years starting fiscal 2024.

A: We have no intention of changing our goal of achieving 3 trillion yen sales revenue by fiscal 2029. We believe that we need to revise our outlook for the next three years, especially fiscal 2024, in light of the current situation. However, there has been no change to our basic approach such as using KDDI's shares as collateral to raise approximately 500 billion yen.

**Cautionary statement**

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