



Outline of Q&A on Conference Call for the Nine Months Ended December 31, 2018

(Held on February 1, 2019)

[Solar energy business (Life & Environment Group)]

Q: In the Life & Environment Group, the sales revenue forecast has been revised down while the business profit forecast remains unchanged. Can you tell us the reason for this? Also, since sales revenue for the fourth quarter (“Q4”) in this reporting segment is projected to decrease to 10.5 billion yen, how do you intend to improve the solar energy business for the year ending March 31, 2020 (“next fiscal year”) in order to enhance these results?

A: The decline in sales revenue in Q4 for the year ending March 31, 2019 (“this fiscal year”) can be attributed to the stagnation in Feed-in-Tariff (“FIT”)-related projects and lack of growth in orders due to the aggressive low-pricing strategies of foreign companies. Next fiscal year, we plan to launch a self-consumption model toward non-FIT from the start of the period, which we believe will begin contributing to results from summer. We expect conditions to be tough in the first quarter (“Q1”) of next fiscal year, but improve in the second half once we launch our self-consumption model in the second quarter (“Q2”).

The profit forecast has been left unchanged even though we revised down the sales revenue forecast because we believe we can maintain profitability primarily by cost saving despite the unfavorable business outlook.

Q: Considering the current electric power policy in Japan, it seems that demand for solar power generation systems is set to nosedive. What sort of risk do you envision in your policy to create a virtual power plant (VPP) business, as you explained in a previous presentation?

A: Up until recently, the solar power generation market was driven by the FIT system. This was because the business model focused on gaining income by selling power for a certain period, which meant system equipment was cheap and only needed to be used for a fixed time. With self-consumption of electricity, a maintenance business is also necessary to ensure the equipment can be used for a long period of 30 or 40 years. The business environment is expected to change drastically, starting in 2019. In terms of the risk of changing policy, the purchase price for power under the FIT system has come down significantly anyway and we don’t expect nuclear power to increase in Japan either. In addition, we have been hearing reports that even big companies want to introduce solar power as a means to reduce CO₂. I therefore believe we can drive significant growth by meeting demand for self-consumption of electricity.

[Organic materials business (Semiconductor Components Group)]

Q: By how much will profit improve next fiscal year due to the impairment loss recorded this fiscal year in this business? Also, why was performance down in this business? How will you change business strategy going forward?

A: We expect to cancel out the loss next fiscal year, or at least come close to doing so. We plan to reduce low-profit areas such as components for mobile handsets etc., and focus on high-growth-potential areas such as automotive substrates for advanced driver assist systems (ADAS) and packages for servers used in data centers. By doing so, we expect profit to improve.

[Current trends in the Components Business]

Q: Will any one-time costs be included in Q4 this fiscal year?

A: There are no plans to do so in Q4.

Q: Can you tell us the major factors behind Kyocera's forecast of a significant decline in sales revenue and business profit from the third quarter (Q3) to Q4 in the Semiconductor Components Group and Electronic Devices Group? Also, are there any signs of recovery or do you expect the markets to bottom out at some point?

A: The expected large declines in both reporting segments in Q4 are due to a slump in the smartphone market. In the Semiconductor Components Group, performance is expected to deteriorate in ceramic packages for crystal components, SAW devices and CMOS sensors. In the Electronic Devices Group, components for smartphones such as crystal devices, connectors and capacitors are expected to decline. The markets are expected to bottom out in March or April 2019, and since results have been challenging for different companies in the industry, we don't foresee any marked improvement in component demand like there was in 2017 or 2018.

Q: There seems to be a difference in the rate of decline in sales revenue from Q3 to Q4 in the Semiconductor Components Group and Electronic Devices Group, with the former expected to drop by a greater amount. Since both reporting segments are actively engaged in smartphone-related business, what has brought about this difference?

A: The proportion of smartphone-related business is greater in the Semiconductor Components Group than the Electronic Devices Group. In the Electronic Devices Group, the proportion of smartphone-related business is rather small at AVX while automotive-related business is more prominent, in particular.

Q: In the Industrial & Automotive Components Group, when do you expect conditions to recover for ceramic parts used in semiconductor processing equipment? In addition, can you tell us your outlook for the timing of recovery for ceramic packages for optical communications within the Semiconductor Components Group?

A: Demand has not dropped much in the market for logic-related semiconductor processing equipment. While demand in the memory-related sector was strong up until the first half of this fiscal year, it has decreased considerably since. Many customers in the semiconductor processing equipment field are forecasting recovery from around the end of 2019. Although demand for ceramic packages for optical communications has bottomed out, there are still no signs of genuine resurgence.

Q: Will Kyocera keep to its schedule for production expansion in parts for semiconductor processing equipment despite the current business environment in preparation for the upcoming recovery?

A: That's exactly right.

[Telecommunications equipment business (Communications Group)]

Q: Do you think the Communications Group can maintain its current level of profit going forward?

A: We finished reorganizing business in the U.S. market, which was a challenge we needed to address. We also completed the consolidation of production sites in 2018. Although we expect some fluctuation in profit results, we don't foresee any significant deterioration like before.

[Document Solutions Group]

Q: Kyocera has revised down its profit forecast in this reporting segment. How was performance in Q3 and what is your market environment outlook for Q4?

A: Our main markets are Europe and the United States in this business. Rather than a drastic decline as with smartphones, we expect a subtle drop in sales in these markets relative to initial projections.

Q: Although results are typically skewed in the second half of each fiscal year with major growth posted in Q4, are you not expecting as much growth this year?

A: Results are not expected to climb as much as other years.

Q: Are there any special factors behind the forecast increase in sales revenue and decrease in business profit in this reporting segment in Q4 relative to Q3?

A: Sales promotion costs are forecast to increase in line with efforts to boost sales at the end of the fiscal year.

[Capital Expenditures]

Q: Can the large discrepancy in capital expenditures and depreciation be attributed to the restraints that have been put on investment? Or did capital expenditures increase temporarily in the Components Business in Q3 of this fiscal year?

A: Component demand has been extremely strong for the past two years or so in the Components Business. In addition, new technologies have been released in areas such as ADAS and 5G. Investment will be at a higher level than before as we follow these trends. We expect to sustain this high level until next fiscal year or the fiscal year following that.

[Results in the near future]

Q: What is your outlook for smartphone component demand next fiscal year? Also, does Kyocera have any products that can compensate for the slump in smartphone components?

A: We haven't actually made any precise calculations, but we expect demand for smartphone components to decline by 10-20% relative to this fiscal year. In terms of other areas that may cover this decline, ADAS-related automotive parts and parts for 5G-related base stations are two areas that are expected to become major pillars of business going forward.

Q: With regard to your target of 2 trillion yen in sales revenue for the year ending March 31, 2021, how do you plan to increase sales revenue by the required 400 billion yen in the next two years to achieve this and in which reporting segment? Also, what level of sales revenue are you targeting next fiscal year?

A: We expect to see significant growth in three reporting segments, namely the Industrial & Automotive Components Group, the Electronic Devices Group and the Document Solutions Group. As I have stated before, half of the growth will be organic and the other half will come from merger and acquisition activities. Although we have conducted fewer merger and acquisition activities this fiscal year relative to the previous fiscal year, we are planning to implement a number of projects around the same time from the end of this fiscal year to the start of next fiscal year. We would like to aim for sales revenue of approximately 1.7 trillion yen next fiscal year.

Q: If Kyocera is forecasting 1.7 trillion yen in sales revenue, will the increase of 100 billion yen come from autonomous growth in existing businesses?

A: Yes, we believe so.

Cautionary statement

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