



Outline of Q&A on Financial Presentation for the Year Ended March 31, 2023

(Held on May 16, 2023)

(Note: Fiscal periods used in this document)

Fiscal year ending March 31, 2024: FY Mar. 2024

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

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

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

1. Financial forecasts for FY Mar. 2024

• Core Components Business

Q: Please elaborate the outlook for the Core Components Business.

A: The semiconductor related markets in general is in a downturn. However, in the areas of cutting-edge semiconductors, the area we focus on, we do not see a decrease of demand of AI chips etc. Since we will be making upfront investments for organic packages and boards and components for semiconductor processing equipment, we expect considerable impact in the business profit. However, due to our focus in cutting-edge areas, we expect less impact on our business as compared with market in general.

• Electronic Components Business

Q: Please share us some insight into what specific management reforms will contribute to the increase in profit forecast for FY Mar. 2024, while many of your competitors of electronic component manufacturers are forecasting a decline in profit.

A: First, the reason for the significant improvement in business profit is the absence of one-time costs we had in FY Mar. 2023 of approximately 3 billion yen, including the costs relating to pension obligations.

Second, we have been implementing automation technologies over the past two years at Kyocera AVX Components Corporation("KAVX")'s overseas locations to enhance automation. This has led to a yield increase for existing tantalum capacitors, and we are making similar improvements across our global locations.

Third, we are persistently implementing price adjustments, and our customers not only in Japan but also globally generally understand and accept these changes. We believe these measures will start taking effect and profitability will improve primarily in 2H of FY Mar. 2024, paralleling a gradual market recovery.

Also, Kyocera's electronic components business has a relatively high sales proportion of components for smartphones, but KAVX focuses mainly on automotive-related markets. Moreover, demand of smartphone components from Kyocera's major customer which has not decreased largely also contributes to the profit.

• **Solutions Business**

Q: The Solutions Business seems to significantly improve in FY Mar. 2024, and it seems that the Communications Unit acts as a primary driver of this improvement. I surmise that fixed costs of the Communications Unit would differ greatly depending on R&D costs. Are there any planned changes in personnel allocation in FY Mar. 2024?

A: Approximately 100 engineers who have been involved in the consumer business of the telecommunications equipment business will be newly reassigned to R&D for the development of millimeter-wave 5G communications etc.

Q: Please elaborate the outlook for the Solutions Business in FY Mar. 2024.

A: The absence of one-time costs of approximately 8 billion yen, as well as decrease in fixed costs from reallocating engineers of the telecommunications equipment business to R&D will contribute to improvement in profit. Additionally, we see the smart energy business to improve to become profitable in FY Mar. 2024 and this will also be a factor for the improvement.

Q: Please elaborate how much the profitability of the Communications Unit would improve as a result of discontinuing consumer smartphone business.

A: We forecast a considerable improvement in profitability of the Communications Unit in FY Mar. 2024 as compared with FY Mar. 2023. However, we still do not expect the business to be profitable in FY Mar. 2024. We plan to enhance profitability by scaling back our low-profitable consumer smartphone business but we will be continuing our consumer smartphone business in FY Mar. 2024, so those losses will still be present. However, we will further scale down the business in FY Mar. 2025 and plans to pivot towards corporate business and then start generating profit.

2. Medium-term management plan

• Capital expenditures

Q: Kyocera plans to significantly increase production capacity and investments, but I'm curious how realistic this strategy is. Would the investment speeds be tied to demand recovery, especially in areas which you hold a significant market share, such as the Core Components Business?

A: The timespan of investment cycle, from making decisions to constructing factories and installing equipment, has extended, and which used to be completed within a year to a year and a half about 10 years ago, now takes approximately three years. Therefore, we will not make it in time if we start investment based on market conditions. We understand that semiconductor markets are currently in an adjustment phase, especially for memory semiconductors. We have carefully examined the projected growth of our components not just in the short term, but for over a span of seven to eight years. This analysis, which includes data from our customers and consultations with experts, concludes that the size of the semiconductor market will double in CY2030 as compared with CY2022. We made our investment decisions based on this forecast.

Q: Kyocera announced proactive investments, but how would you decide your investments? Will you follow through the business conditions?

A: Our investments for semiconductor-related markets are considering the market conditions up to CY2030. Due to the long lead time of around two years currently required for constructing factories, we are progressing the construction of factories as planned. However, if the market conditions seem likely to be worse than expected for a prolonged period, we may consider delaying or halting the installation of equipment as necessary.

• ROE

Q: In the medium-term management plan, Kyocera sets financial targets for FY Mar. 2026 of 14% profit margin before income taxes and 7% ROE. However, I believe ROE target was 8% previously. Please elaborate why the ROE target had been revised to 7%. Additionally, what measures do you implement to improve capital efficiency to achieve an ROE surpassing the cost of capital?

A: The previous 15% profit before income taxes margin and 8% ROE had been an interim target towards our overarching FY Mar. 2029 target of a double-digit ROE on a 3 trillion yen sales revenue. As we formulate the current medium-term plan for the next three years, we wanted to set a target of a 15% profit margin and 8% ROE. However, the substantial upfront investment in components for semiconductor-related markets meant we couldn't achieve these targets due to the large depreciation costs.

In terms of ROE, we consider strategies other than increasing profits, which are incorporated into the numerator of the equation, we are also exploring the potential for actions such as share repurchases to reduce the equity, the denominator.

• **Electronic Components Business**

Q: I assume market share of components in the Electronic Components Business is less dominant, but what strategies do you plan to employ to grow your market share?

A: For products like crystal resonators, which require high-precision processing for miniaturization, we've differentiated ourselves including the use of photolithography, giving us a high market share for the smallest 1008-size crystal resonators. Efforts to achieve further miniaturization are said to require MEMS resonators. We've acquired a Finnish company and are developing these MEMS resonators using their proprietary technology. Therefore, we're confident we can maintain our high market share in crystal or MEMS resonators while pushing forward. This is one area we prioritize investment within the Electronic Components Business. In addition, we aim to further increase market shares of KAVX's tantalum capacitors, which holds a significant market share. Moreover, we foresee considerable growth in MLCCs and plan to focus on developing small, high capacitance MLCCs. We also intend to leverage KAVX's proven track record in automotive-related products to further increase the business.

Q: Over the next three years, there seems to be a substantial shift in product development and the product portfolio in the Electronic Components Business.

Additionally, I anticipate manufacturing synergies to emerge between Kyocera's electronic component business and KAVX. What are the key factors you consider to increase market shares of tantalum capacitors, timing devices, MLCCs, and connectors?

A: As for the crystal devices and tantalum capacitors, we expect the initiatives to enter new areas would bear fruit in the next three years.

Regarding timing devices, we initiated sample deliveries of MEMS resonators in FY Mar. 2024, to target new markets. We hold a considerable market share in small crystal resonators. However, we foresee growth in crystal resonators for automotives, which size is slightly larger. In order to reduce costs, we started transferring production lines in Vietnam, aiming to manufacture in Vietnam and supply to customers in Europe and the US. As for high-reliability crystal oscillators, there are oven controlled crystal oscillators (OCXOs) used in aerospace and low-earth orbit satellites, but we have not manufactured them before. Therefore, we plan to enter into the market by acquiring this technology through capital strategies. Thus, our strategy for substantial growth regarding the crystal devices involves venturing into previously unentered areas, both

technologically and in terms of manufacturing.

For capacitors, we are expanding the production of polymer tantalum capacitors in Thailand, and we also inherited a portion of Rohm's business. We aim to leverage the existing supply chain of standard tantalum capacitors to significantly grow this area in FY Mar. 2024 as well.

Q: You mentioned that Kyocera would expand the applications of crystal devices into automotive-related markets, but the general view is that it's quite challenging to break into the automotive-related markets, where connections with customers are vital. During your medium-term management plan, do you have a solid outlook to expand market share steadily in the automotive sector, as well as for high-reliability products, and MEMS resonators?

A: We already have a certain market share in the automotive-related markets. Half of the total sales of KAVX are for automotive applications in Europe and the US. The Sensing & Control department, which have a high sales proportion to automotive-related markets, deals directly with car manufacturers rather than car part manufacturers. We aim to leverage these existing supply chains.

As for high-reliability products, KAVX is particularly strong in aerospace and medical sectors, especially in the US. These are not entirely new field for us; therefore, we believe that if we introduce good products, we have a path to success.

• **Solutions Business**

Q: You mentioned growing the B2B business in the Communications Unit, but could you explain how this will change in your business over the next three years?

A: The Communications Unit consists of two businesses; Kyocera Communications Systems Co., Ltd. that primarily encompasses our domestic ICT and base station engineering business, as well as our telecommunication equipment business. For FY Mar. 2023, sales revenue of approximately 70 billion yen came from the telecommunication equipment business. We plan to gradually discontinue consumer smartphone business and shift our focus to B2B terminal devices. We will also provide communication services for corporate clients such as kitting and repairing devices. In this way, we aim to consolidate our business into more profitable sectors.

• **Share repurchases**

Q: Regarding the share repurchase, how did you decide to repurchase in the amount of 50 billion yen? How should we anticipate the repurchase in FY Mar. 2025 and FY Mar. 2026 and its magnitude?

A: The largest share repurchases we conducted in the past was in the amount of 40 billion yen. For FY Mar. 2024, marking the first year of our medium-term management plan, we aimed to surpass our previous record and decided on a 50 billion yen share repurchase as a starting point. Our future potential repurchases, will be heavily influenced by the evolution of our M&A activities within our capital allocation framework. Therefore, it is difficult to answer your question at this point.

• **Cross-shareholdings**

Q: Kyocera adopted reduction target to reduce cross-shareholdings by at least 5% on a book value basis. Could you clarify the rationale behind this decision?

A: About the target to reduce its shareholdings by at least 5% on a book value basis, the majority of our held shares are KDDI CORPORATION (“KDDI”) shares, which account for over 90% of our book value. As we have been continuing discussions with the relevant parties and have gained understanding from the parties accounts for more than half of the shares excluding KDDI, this time we have decided to set a target of reducing at least 5% of such shares on a book value basis.

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