

Murata Manufacturing Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2024

October 31, 2023

Event Summary

[Company Name]	Murata Manufacturing Co., Ltd.	
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[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending March 2024	
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[Date]	October 31, 2023	
[Time]	15:30 – 16:39 (Total: 69 minutes, Presentation: 20 minutes, Q&A: 49 minutes)	
[Venue]	Webcast	
[Number of Speakers]	3	
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	Masanori Minamide	Executive Vice President (Board Member), General Manager, Corporate Unit
	Nagato Omori	Executive Vice President Ceramic Capacitor Business Unit
[Analyst Names]	Daiki Takayama	Goldman Sachs
	Shoji Sato	Morgan Stanley MUFG Securities
	Akihiko Uchino	Mitsubishi UFJ Morgan Stanley Securities
	Manabu Akizuki	Nomura Securities
	Fumihide Goto	Mizuho Securities
	Hideaki Yasuda	TOYO SECURITIES
	Takayuki Naito	Citigroup Global Markets
	Shingo Hirata	UBS Securities

Presentation

Moderator: As it's time to start, we would like to begin Murata Manufacturing Co., Ltd.'s Q2 financial results briefing for the fiscal year ending March 2024. Thank you very much for joining us today despite your busy schedules. First, let me introduce today's attendees from our company. We have our President and Representative Director, Norio Nakajima.

Nakajima: Thank you.

Moderator: Next, we have Masanori Minamide, our Executive Vice President and General Manager of the Corporate Unit.

Minamide: Thank you.

Moderator: And we have Nagato Omori, our Executive Vice President and General Manager of the Ceramic Capacitor Business Unit.

Omori: Thank you.

Moderator: Additionally, members of our IR team are also in attendance. For today's proceedings, we will first provide an explanation of our financial results, followed by a Q&A session starting around 3:50 PM. The materials for this presentation are available on our company website, in the IR Library under the Investor Relations section. Also, timely disclosure of the presentation materials has been carried out, so you can verify them through the Tokyo Stock Exchange's timely disclosure information service. Now, I'll hand over to Minamide to explain the details of our financial results.



Financial Results of FY2023 1st Half

- Revenue was 810.4 billion yen, down 11.9% year on year, and operating profit came to 138.9 billion yen, down 30.7% year on year. Revenue of capacitors increased for mobility but decreased mainly for computers and base stations. Decreases in connectivity modules and lithium-ion secondary batteries are additional factors in the revenue decrease. In terms of profits, a productivity loss from lower capacity utilization and declines in product selling prices caused a profit decrease.
- Revenue and operating profit are up 2.8% and up 65.4% respectively, compared with the most recent earnings forecast. Profits surpassed the forecast significantly due to a further depreciation of the yen, restraints on fixed costs, and the improved profitability of devices and modules although demand for parts was short of the expectation and productivity fell due to lower capacity utilization.
- Even though demand quantities were lower than expected, the Company executed production plans to reduce inventory, which meant inventory quantities of many parts reached almost appropriate levels.

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Minamide: Thank you for your continued support and cooperation with Murata Manufacturing's investor relations activities. I'd like to express my gratitude on this occasion. Now, let me explain the financial results.

Please refer to page two for the performance of H1 of FY2023. Compared to the same period last year, our revenue decreased by 11.9% to JPY810.4 billion, and operating profit fell by 30.7% to JPY138.9 billion. I will provide more details on this later, including the reasoning behind these figures.

Compared to our earnings forecast, there was an increase of 2.8% in revenue and 65.4% in operating profit. This significant increase in profit was largely due to the depreciation of the yen. However, it's also important to note that we managed to control fixed costs, improve the profit margin of our devices and modules, and reduce inventory. Consequently, we have generally optimized inventory levels across many of our products.



Projected Financial Results for FY2023

- The Company has revised the projected financial results based on the results for the first half of FY2023 and demand forecasts for the second half of FY2023.

Projected Financial Results

- Revenue is planned to be 1,620.0 billion yen, a decrease of 1.2% from the previous forecast. In terms of quantity, a decline in demand for parts is observed in all applications. By application, revenue for communication is expected to increase due to the effect of a weak yen, but a recovery for power tools, PC peripherals and servers is delayed. Accordingly, revenue is forecast to decrease.
- Operating profit is planned to be 270.0 billion yen, an increase of 22.7% from the previous forecast. Based on the better-than-expected earnings in the first half of the fiscal year, a profit increase is forecast.

Shareholder returns

- The annual dividend will remain unchanged from the announced figure (the same level as the previous fiscal year).

Please turn to page three, where we explain our FY2023 earnings forecast. We have revised our earnings forecast based on the H1 performance and the demand outlook for H2. We plan for revenue to be JPY1.62 trillion, down 1.2% from the previous forecast. Operating profit, however, is expected to increase by 22.7% from the previous forecast to JPY270 billion. I will explain the factors behind this in more detail later. We have maintained the announced annual dividend.

Financial Results Overview



	FY2022		FY2023						Q on Q Change		Y on Y Change		Impact of exchange rate (B JPY)	Constant Currency basis	
	1st Half		1st Quarter		2nd Quarter		1st Half		(B JPY)	(%)	(B JPY)	(%)		(B JPY)	(%)
	(B JPY)	(%)	(B JPY)	(%)	(B JPY)	(%)	(B JPY)	(%)							
Revenue	920.2	100.0	367.7	100.0	442.7	100.0	810.4	100.0	+75.0	+20.4	(109.9)	(11.9)	+35.1	(145.0)	(15.8)
Operating profit	200.6	21.8	50.1	13.6	88.8	20.1	138.9	17.1	+38.7	+77.2	(61.7)	(30.7)	+17.6	(79.2)	(39.5)
Profit before tax	217.0	23.6	62.8	17.1	98.5	22.2	161.2	19.9	+35.7	+56.9	(55.8)	(25.7)			
Profit attributable to owners of parent	161.8	17.6	50.1	13.6	75.1	17.0	125.2	15.4	+25.0	+49.8	(36.6)	(22.6)			
Average exchange rates yen/US dollar	133.98		137.37		144.63		141.00		*Exchange rate sensitivity (per 1 JPY/US\$ change per year) Revenue : 10.0 BJPY Operating profit : 5.0 BJPY						

Second Quarter of FY2023(QoQ)

- Revenue of multilayer resin substrates, high frequency modules and capacitors increased for smartphones. Additionally, revenue of capacitors increased for mobility.
- Operating profit increased primarily due to a rise in capacity utilization and the further depreciation of the yen.

First Half of FY2023(YoY)

- Revenue of capacitors increased for mobility but decreased for PCs. Additionally, revenue of lithium-ion secondary batteries decreased for power tools and connectivity modules fell for smartphones.
- Operating profit decreased mainly due to a productivity loss from lower capacity utilization and reductions in product selling prices, despite cost reductions, the further depreciation of the yen and a decrease in fixed costs.

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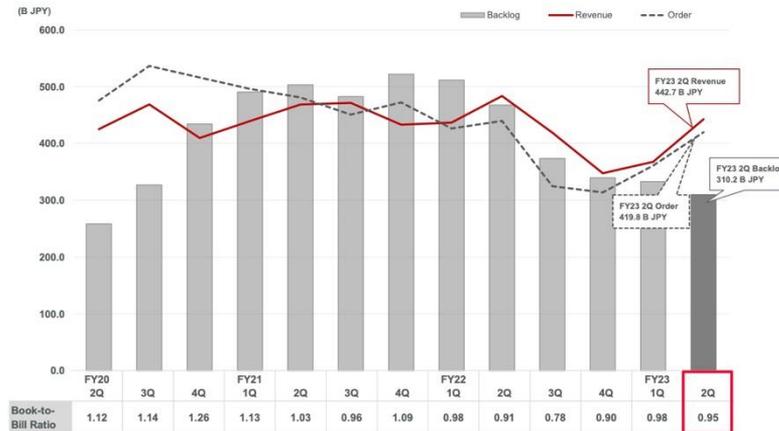
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Now, please look at page five. This page provides an overview of the performance for H1. On the far right of this table, you'll notice a section titled constant currency basis. As shown here, even excluding the impact of foreign exchange, revenue and profits decreased year-on-year in the H1 of FY2023.

Regarding Q2 of FY2023, we saw an increase in high frequency modules, multilayer resin substrates, and capacitors for smartphones, primarily due to seasonal factors. In the mobility sector, the increase in capacitors contributed to an increase in operating profit.

Quarterly Revenue, Order and Backlog

- Orders received increased from the previous quarter. However, orders received remained below revenue.
- The order backlog decreased from the previous quarter mainly in Battery and Power Supply.



* Orders = Revenue + Backlogs at the Current Quarter - Backlogs at the Previous Quarter
 Backlogs are calculated based on exchange rates as of the end of each quarter.

* Exchange rate against the U.S. dollar: 144.99 yen at the end of June 2023, 149.58 yen at the end of September 2023

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Please turn to page six for the trends in sales, orders, and order backlog. Regarding the order backlog, this quarter also saw order volume keep below sales, resulting in a book-to-bill ratio of 0.95, leading to a slight decrease in the order backlog. While the BB ratio stands at 0.95, this is primarily due to the battery & power supply sector, where the BB ratio significantly fell below 1. However, in other sectors, the BB ratio is around 1, showing slight signs of improvement.

Revenue by Operating segments

	FY2022 1st Half		FY2023 1st Half		FY2023 1st Half		Q on Q Change		Y on Y Change	
	(B JPY)	(%)	(B JPY)	(B JPY)	(B JPY)	(%)	(B JPY)	(%)	(B JPY)	(%)
Capacitors	396.6	43.1	169.5	197.0	366.5	45.2	+27.5	+16.3	(30.1)	(7.6)
Inductors and EMI filters	95.2	10.4	38.9	48.4	87.3	10.8	+9.5	+24.5	(7.9)	(8.3)
High-Frequency Device and Communications Module	256.0	27.8	87.9	127.7	215.6	26.6	+39.8	+45.3	(40.4)	(15.8)
Battery and Power supply	116.3	12.6	48.0	43.1	91.1	11.2	(4.9)	(10.2)	(25.2)	(21.6)
Functional Device	49.7	5.4	20.9	23.5	44.5	5.5	+2.6	+12.6	(5.3)	(10.6)
Others	6.5	0.7	2.5	2.9	5.4	0.7	+0.4	+14.7	(1.1)	(17.0)
Revenue	920.2	100.0	367.7	442.7	810.4	100.0	+75.0	+20.4	(109.9)	(11.9)

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Please turn to page seven for the segment-wise revenue breakdown. Compared to the immediate previous quarter, all sectors except battery & power supply experienced an increase in revenue. However, YoY, there has been a decrease in revenue across all segments.



Revenue by Operating segments [FY23 1st Half vs. FY22 1st Half]

Capacitors (7.6%)	MLCCs : Whereas revenue for mobility increased, revenue decreased in wide range of applications, mainly for computers and base stations.
Inductors and EMI filters (8.3%)	Inductors : Whereas revenue for mobility increased, revenue decreased in wide range of applications, mainly for computers.
High-Frequency Device and Communications Module (15.8%)	SAW Filters : Revenue increased for smartphones. Connectivity modules, High frequency modules : Revenue decreased for smartphones.
Battery and Power supply (21.6%)	Lithium-Ion secondary batteries : Revenue decreased for power tools.
Functional Device (10.6%)	Sensors : Whereas revenue for mobility increased, revenue decreased in wide range of applications, mainly for computers and smartphones.

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Now, let's move to page eight, where we have outlined the contributing factors. For capacitors, we saw an increase in the mobility sector, but a decrease in other areas, leading to an overall decrease of 7.6%. The trend for inductors is almost identical to that of capacitors. As for high-frequency devices and communication modules, a notable point is the increase in surface acoustic wave (SAW) filters for smartphones. On the other hand, due to a review of our product portfolio, there has been a decrease in connectivity modules. Additionally, high frequency modules have also decreased compared to the same period last year. The battery & power supply segment experienced a significant decrease.

Revenue by Operating segments [FY23 2nd Quarter vs. FY23 1st Quarter]

Capacitors +16.3%	MLCCs : Revenue increased for mobility and smartphones.
Inductors and EMI filters +24.5%	Inductors : Revenue increased for smartphones and mobility. EMI suppression filters : Revenue increased for mobility.
High-Frequency Device and Communications Module +45.3%	Multilayer resin substrates, High frequency modules, Connectors, SAW Filters : Revenue increased for smartphones.
Battery and Power supply (10.2%)	Lithium-Ion secondary batteries : Revenue decreased for power tools.
Functional Device +12.6%	Sensors : Revenue increased for mobility and smartphones.

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Moving on to page nine, overall, there has been an increase in sales from Q1. However, the battery & power supply segment continues to experience a decline due to ongoing inventory adjustments by customers.

Revenue by Application

	FY2022 1st Half		FY2023 1Q		FY2023 2Q		FY2023 1st Half		Q on Q Change		Y on Y Change	
	(B JPY)	(%)	(B JPY)	(B JPY)	(B JPY)	(B JPY)	(B JPY)	(%)	(B JPY)	(%)	(B JPY)	(%)
Communication	374.2	40.7	134.1	194.1	328.2	40.5	+60.0	+44.8	(46.0)	(12.3)		
Mobility	186.2	20.2	99.6	110.7	210.3	26.0	+11.1	+11.2	+24.1	+13.0		
Computers	133.4	14.5	45.2	50.7	95.9	11.8	+5.5	+12.1	(37.5)	(28.1)		
Home Electronics	113.3	12.3	42.0	40.3	82.3	10.2	(1.8)	(4.2)	(31.0)	(27.4)		
Industry and Others	113.1	12.3	46.8	46.8	93.6	11.5	+0.1	+0.2	(19.5)	(17.2)		
Revenue	920.2	100.0	367.7	442.7	810.4	100.0	+75.0	+20.4	(109.9)	(11.9)		

*Based on our estimate

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Please turn to page ten, which outlines revenue by application. The trend here aligns with what was mentioned earlier. From the immediate previous quarter, there has been a decrease in the home electronics segment, largely due to batteries for power tools. YoY, the mobility segment has seen a significant increase, but other areas have experienced a decline.

Revenue by Application [FY23 1st Half vs. FY22 1st Half]



Communication (12.3%)	Revenue of SAW Filters increased for smartphones. Revenue of connectivity modules decreased for smartphones. Revenue of capacitors decreased for base stations.
Mobility +13.0%	Revenue of capacitors, inductors and sensors increased due to the revenue increasing factor of a weaker yen and a recovery in the quantity of automobiles produced.
Computers (28.1%)	Revenue of capacitors, connectivity modules and inductors decreased for PCs.
Home Electronics (27.4%)	Revenue of lithium-ion secondary batteries decreased for power tools.
Industry and Others (17.2%)	Revenue of capacitors decreased for industrial equipment. Revenue of capacitors decreased for distributors.

*Based on our estimate

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Moving on to page 11, the trends are generally consistent with what has been discussed in the product-specific sections earlier. I invite you to review the details later.

Revenue by Application [FY23 2nd Quarter vs. FY23 1st Quarter]



Communication +44.8%	Revenue of multilayer resin substrates, high frequency modules, capacitors, inductors increased for smartphones.
Mobility +11.2%	Revenue of capacitors, inductors and sensors increased due to a recovery in the quantity of automobiles produced.
Computers +12.1%	Revenue of capacitors increased for PCs.
Home Electronics (4.2%)	Revenue of lithium-ion secondary batteries decreased for power tools.
Industry and Others +0.2%	Revenue of capacitors increased for distributors.

*Based on our estimate

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The same applies to page 12.

Segment Information



		FY2022 1st Half		FY2023 1st Half		Y on Y Change	
		(B. JPY)	(%)	(B. JPY)	(%)	(B. JPY)	(%)
Components	Revenue	497.2	100.0	458.0	100.0	(39.2)	(7.9)
	Operating profit	170.9	34.4	116.5	25.4	(54.4)	(31.8)
Devices and modules	Revenue	422.0	100.0	351.2	100.0	(70.8)	(16.8)
	Operating profit	30.1	7.1	26.2	7.5	(4.0)	(13.1)
Others	Revenue	36.7	100.0	32.2	100.0	(4.5)	(12.2)
	Operating profit	(0.4)	(1.1)	(3.7)	(11.6)	(3.3)	-
Eliminations	Revenue	(35.7)	-	(31.1)	-	+4.6	-
Consolidated	Revenue	920.2	100.0	810.4	100.0	(109.9)	(11.9)
	Operating profit	200.6	21.8	138.9	17.1	(61.7)	(30.7)

- Components**
 Profits fell due to the expansion of a loss of productivity from lower capacity utilization resulting from a decrease in production output, despite the profit-increasing effect of the depreciation of the yen.
- Devices and modules**
 Although operating profit decreased partly resulting from the drop in revenue, operating profit ratio improved primarily due to the profit-increasing factor of the weaker yen, improvements in the profitability of individual parts, and a rise in the ratio of Multilayer resin substrates and SAW filters to the product mix.

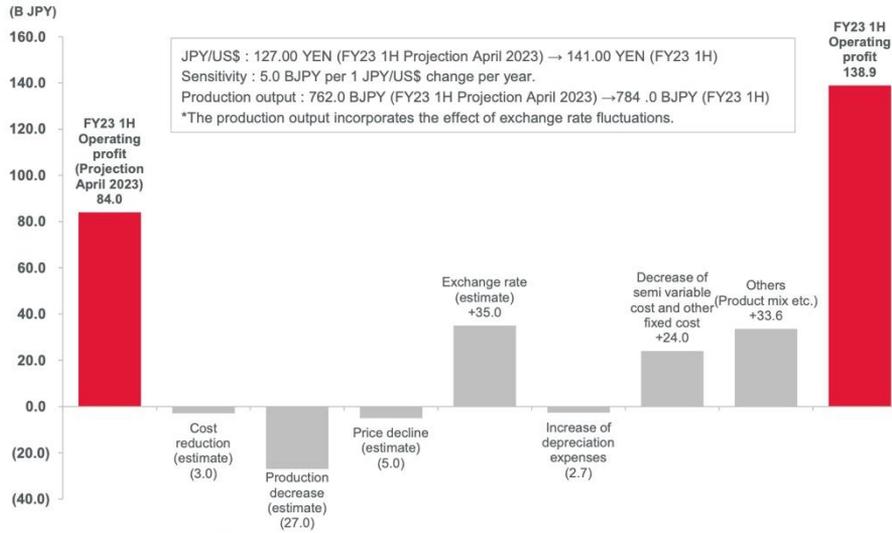
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Please turn to page 13. This page outlines the profit and loss situation for each segment. Firstly, for components, although there was a decrease of JPY39.2 billion in sales compared to the same period last year, the reduction in manufacturing volume is even greater. This is because last year was a period of inventory buildup, whereas this year, there has been a significant reduction in inventory for components. As a result, the operating profit margin has decreased from 34.4% to 25.4%.

For devices and modules, while there has been a significant decrease in sales revenue, the operating profit margin has remained roughly the same as the previous year. This is due to an increased proportion of SAW filters and multilayer resin boards, as well as improved profitability across all products in the devices and modules segment. Furthermore, from Q1 to Q2 of this fiscal year, profitability in the devices and modules segment has significantly improved, partly due to seasonal factors.

Breakdown of Operating Profit Changes [FY23 1st Half Projection (April 2023) to FY23 1st Half]

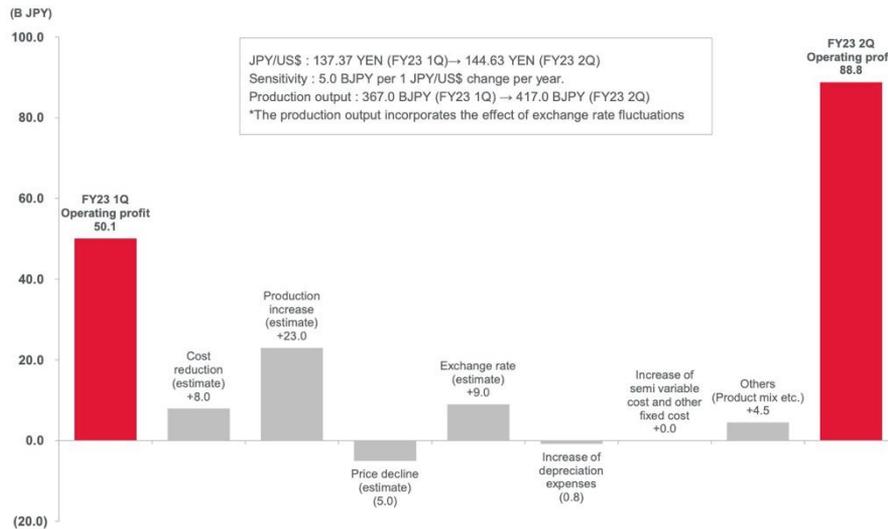


**"Production decrease" is calculated on the basis of production output excluding the effect of sales price reductions and exchange rate fluctuations.

On page 14, we have the breakdown of factors behind changes in profit. These are the changes compared to the earnings forecast issued in April 2023. The main variations include production, due to currency fluctuations and production volume, resulting in a negative impact of JPY27 billion. On the other hand, the exchange rate positively impacted by JPY35 billion. Semi-variable and other fixed costs show a positive JPY24 billion, attributed to compressing fixed costs below initial projections, lower energy unit costs than initially anticipated, and a slight reduction in semi-variable costs due to decreased production volumes.

The product mix difference, as previously mentioned, is influenced by improved profitability in each category within the devices and modules segment and slightly lower material costs than expected.

Breakdown of Operating Profit Changes [FY23 1st Quarter to FY23 2nd Quarter]



**"Production increase" is calculated on the basis of production output excluding the effect of sales price reductions and exchange rate fluctuations.

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Page 15 details the profit variation factors from Q1 to Q2. The significant aspect here is that the increase in production gains has pushed up the operating profit.

Cash Flows

	FY2022 1st Half	FY2023 1st Half	Y on Y Change
	(B JPY)	(B JPY)	(B JPY)
Cash flows from operating activities	155.7	191.7	+35.9
Cash flows from investing activities	(58.2)	(115.4)	(57.1)
Cash flows from financing activities	(131.3)	(53.1)	+78.2
Effect of exchange rate changes	20.1	29.2	+9.1
Cash and cash equivalents at end of period	498.4	521.8	+23.4
Free Cash Flows	97.5	76.3	(21.2)
Purchase of property, plant and equipment	(87.0)	(124.5)	(37.5)
Depreciation and amortization	83.3	85.0	+1.7

- Cash flow from operating activities increased as a result of decrease in inventories despite a year-on-year profit decrease.
- Cash flow from financing activities grew since the Company repurchased treasury stock in the same period a year earlier.

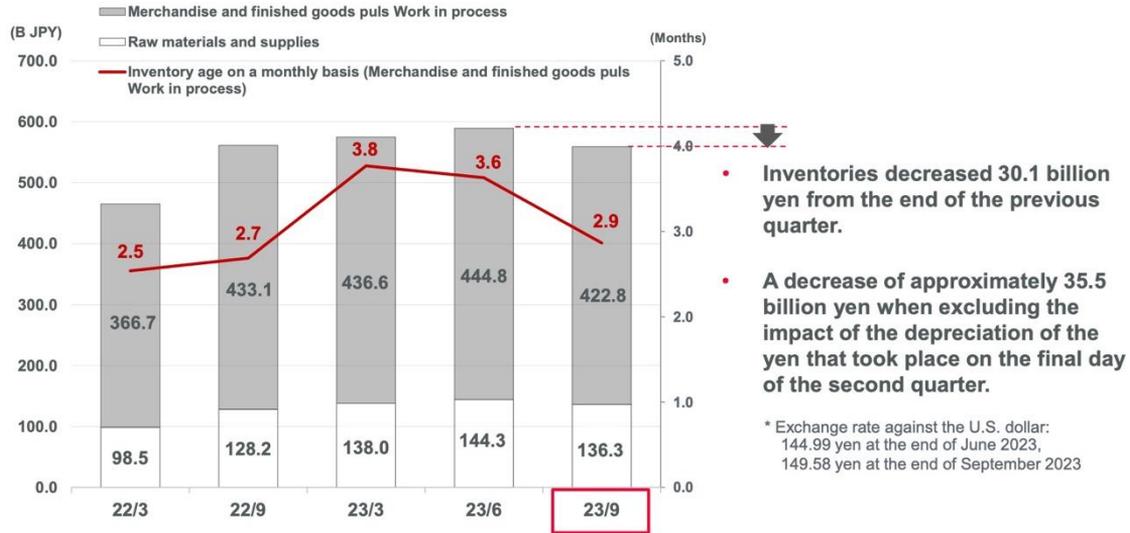
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On page 16, we discuss cash flow. Overall, the content is as you see, but notably, the cash flow from operating activities has increased compared to the same period last year, primarily due to a reduction in inventory assets. As for the cash flow from financing activities, it has increased this term, mainly due to the comparison with the previous year when we acquired JPY80 billion in treasury stock.



Current Inventory Situation



- Inventories decreased 30.1 billion yen from the end of the previous quarter.
- A decrease of approximately 35.5 billion yen when excluding the impact of the depreciation of the yen that took place on the final day of the second quarter.

* Exchange rate against the U.S. dollar:
144.99 yen at the end of June 2023,
149.58 yen at the end of September 2023

* Inventory age on a monthly basis = [Merchandise and finished goods plus work in process at the end of the period] divided by [Average monthly revenue for the most recent quarter]

Page 17 presents the inventory asset situation, with the inventory age marked in red. As of the end of March 2023, it was 3.8 months, which has sequentially decreased to 3.6 and 2.9 months. This figure represents the finished goods and work-in-progress inventory divided by the sales for the corresponding period.

Regarding our initial aim to reduce the inventory to under three months by the end of the term, we have almost achieved this by the end of September. However, while we have reduced inventory for many products, we haven't been able to significantly reduce it for finished battery products due to ongoing inventory adjustments by customers. Excluding the impact of currency fluctuations, we have reduced it by JPY35.5 billion in Q1 and Q2. Comparing it to the beginning of the term, the total inventory on the balance sheet has decreased by JPY15.6 billion, and excluding currency impact, it's a reduction of JPY33.7 billion.

Projected Financial Results for FY2023



	FY2023				FY2023				Y on Y Change		Impact of exchange rate (B JPY)	Constant Currency basis	
	1st Half (B JPY)	2nd Half (B JPY)	Projections(April) (B JPY)	(%)	1st Half (B JPY)	2nd Half (B JPY)	Projections(October) (B JPY)	(%)	(B JPY)	(%)		(B JPY)	(%)
Revenue	788.0	852.0	1,640.0	100.0	810.4	809.7	1,620.0	100.0	(20.0)	(1.2)	+160.0	(180.0)	(11.0)
Operating profit	84.0	136.0	220.0	13.4	138.9	131.1	270.0	16.7	+50.0	+22.7	+80.0	(30.0)	(13.6)
Profit before tax	84.0	136.0	220.0	13.4	161.2	136.8	298.0	18.4	+78.0	+35.5			
Profit attributable to owners of parent	63.0	101.0	164.0	10.0	125.2	99.8	225.0	13.9	+61.0	+37.2			
ROIC (pre-tax basis) (%)			10.2				12.3				*Exchange rate sensitivity (per 1 JPY/US\$ change per year) Revenue : 10.0 BJPY Operating profit : 5.0 BJPY		
Average exchange rates yen/US dollar			127.00				143.00						

Projected Financial Results for FY2023(vs Previous Projection)

*The assumed exchange rate for the second half has been changed to 145 yen to the US dollar.

- Revenue is expected to decrease. The reason is that demand for capacitors is forecast to decline for Industry and Others and Home Electronics due to a delay in the recovery of the PC market and a deterioration in business sentiment, and lithium-ion secondary batteries are projected to decrease for power tools although MLCCs and RF modules are forecast to increase due to the effect of the depreciation of the yen.
- Operating profit is forecast to increase due to the expectation of a further depreciation of the yen, a decrease in fixed costs, improvements in the product mix and others despite an expected productivity loss from lower production output excluding the impact of exchange rates.

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Page 19 addresses the FY2023 performance forecast. As mentioned earlier, we're projecting a JPY20 billion reduction in sales revenue compared to our initial expectations. However, we anticipate a JPY50 billion increase in operating profit.

The table also shows figures excluding the impact of currency fluctuations for reference. As evident, the significant profit increase compared to the initial forecast is largely due to currency impact. On the other hand, as mentioned in H1, we have been steadily improving profitability and reducing fixed costs. Regarding inventory assets, as we achieved the planned reduction in H1, we are planning production volumes in line with sales for H2.

Recognition of Business Environment



	Premises of projected financial results as of April	Recognition of the current situation as of October
Revenue	<ul style="list-style-type: none"> - The smartphone market is expected to recover around the summer - Mounting downward pressure on product prices due to sluggish final demand - Continued holding of BCP inventory by customers for mobility - Inventory adjustment in the power tools market will improve slightly in the second half - Exchange rate set at 127 yen 	<ul style="list-style-type: none"> - In terms of quantity, demand for parts is lower than expected in all applications, but the demand will move on to a recovery path in the second half of the fiscal year. - A delay in a demand recovery for the power tools market and PC peripheral and server markets. - A rise in the price-downward pressure including in such as mobility by intensifying price competition. - The assumed exchange rate for the full year and 2nd half year has been changed to 143 and 145 yen against the U.S. dollar.
Productions	<ul style="list-style-type: none"> - Execution of production plans for inventory reduction 	<ul style="list-style-type: none"> - A decrease in production output excluding the effect of exchange rates in line with a decrease in demand quantities. - Many parts of inventory quantities have reached almost appropriate levels in the first half of the fiscal year. - Production is planned to meet sales for the second half of the fiscal year.
Costs	<ul style="list-style-type: none"> - Continued high level of material prices and energy costs (Estimated based on the situation as of the end of March 2023) - Increase in strategic expenditures such as for strengthening of IT infrastructure 	<ul style="list-style-type: none"> - Improvement in the ratio of materials to costs in the wake of a decline in raw material prices - Decrease in fixed costs due to a fall in electricity unit prices and cost restraints

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Page 20 presents our recognition of the business environment. It outlines changes from April to October. Generally, we believe component demand is lower than expected, particularly with delayed demand recovery in markets such as power tools, PC peripherals, and servers. For mobility, we are experiencing increased pressure for price reductions. We're assuming a currency exchange rate of JPY143 for the full year. As mentioned before, production in H2 is planned in line with sales. As for costs, as previously stated, both raw material and energy costs have slightly decreased compared to our initial estimates.

Projections of Demand



	FY2022	FY2023	FY2023	Change	
	Actual	Projections(April)	Projections(October)	FY22 vs FY23	vs Projections(April)
Smart phones (units)	1,080 M	1,110 M	1,110 M	+3%	Flat
therein 5G smartphones	600 M	650 M	640 M	+7%	(1%)
PCs (units)	420 M	380 M	370 M	(12%)	(3%)
Vehicles (units)	82 M	86 M	88 M	+7%	+2%
therein xEV	24 M	32 M	31 M	1.3 times	(3%)

* Smartphones and PCs are based on the number of demand for components. Vehicles are based on the number of units produced.

- Smartphones** **Although the forecast of the overall quantities has not changed significantly, the ratio of middle- and low-end terminals is expected to rise as demand remains weak.**
- PCs** **The recovery pace is projected to be moderate although inventory adjustment of finished products is progressing.**
- Vehicles** **Quantities are expected to rise primarily due to a production increase to make up for the delay primarily due to the dissolution of production constraints including semiconductor shortages, and the subsidy policy by the Chinese government.**

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Page 21 focuses on the demand forecast for components. For smartphones, we expect demand to remain flat. However, this reflects a slight increase in the ratio of mid to low-end devices compared to our initial expectations. As for PCs, we're projecting a 3% decrease, while for automobiles, we anticipate a 2% increase compared to our initial forecast. However, considering the demand for our components specifically, we recognize that there was some inventory adjustment in the supply chain in Q1, which we believe could have an impact on the overall demand for the full year.

Projected Sales by Operating segment



	FY2023 Projections (April) (B JPY)	FY2023 Projections (October)		Change				
		1st Half (B JPY)	2nd Half (B JPY)	vs Projections (April) (B JPY)	(%)	1st Half vs 2nd Half (B JPY)	(%)	
Capacitors	774.4	366.5	382.2	748.7	(25.7)	(3.3)	+15.7	+4.3
Inductors and EMI filters	179.1	87.3	87.9	175.1	(4.0)	(2.2)	+0.6	+0.7
Components	953.5	453.7	470.1	923.8	(29.7)	(3.1)	+16.3	+3.6
High-Frequency Device and Communications Module	388.0	215.6	213.2	428.8	+40.8	+10.5	(2.5)	(1.2)
Battery and Power supply	184.6	91.1	71.4	162.5	(22.2)	(12.0)	(19.8)	(21.7)
Functional Device	102.2	44.5	48.1	92.5	(9.7)	(9.5)	+3.6	+8.1
Devices/Module	674.9	351.2	332.6	683.8	+8.9	+1.3	(18.6)	(5.3)
Others	11.6	5.4	7.0	12.4	+0.8	+6.6	+1.6	+29.5
Total	1,640.0	810.4	809.7	1,620.0	(20.0)	(1.2)	(0.7)	(0.1)

Page 22 presents the sales forecast by operating segment. Compared to our previous forecast, we are projecting an increase for the high frequency device & communication modules segment, reflecting the stronger performance, especially in Q2. For other segments, we anticipate a decrease. H2 compared to H1 is as shown.

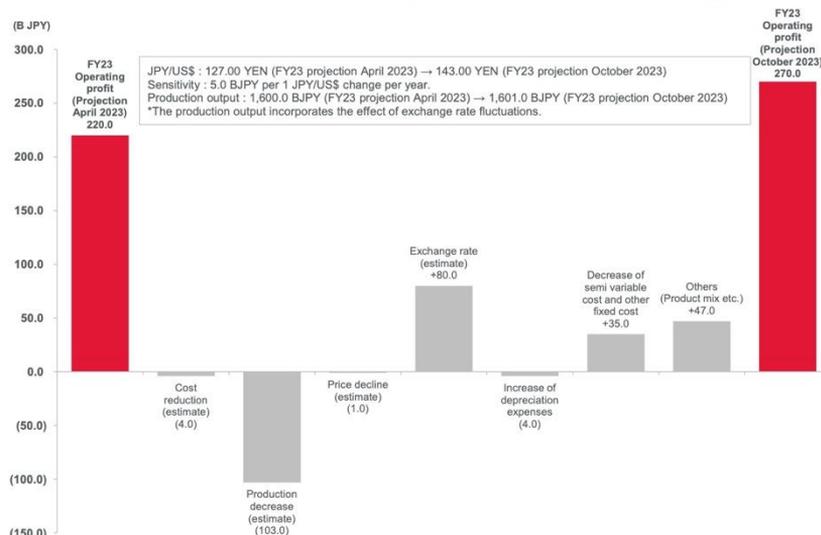
Projected Sales by Application

	FY2023 Projections (April) (B JPY)	FY2023 Projections (October)		Change				
		1st Half (B JPY)	2nd Half (B JPY)	vs Projections (April) (B JPY)	(%)	1st Half vs 2nd Half (B JPY)	(%)	
Communication	600.5	328.2	321.5	649.7	+49.2	+8.2	(6.7)	(2.0)
Mobility	435.1	210.3	224.7	435.1	Flat		+14.4	+6.8
Computers	214.6	95.9	96.7	192.6	(22.0)	(10.3)	+0.8	+0.9
Home Electronics	184.0	82.3	72.5	154.8	(29.2)	(15.9)	(9.8)	(11.9)
Industry and Others	205.8	93.6	94.2	187.8	(18.1)	(8.8)	+0.6	+0.6
Total	1,640.0	810.4	809.7	1,620.0	(20.0)	(1.2)	(0.7)	(0.1)

*Based on our estimate

On page 23, regarding the forecast by application, we expect an increase in the communication application due to its outperformance in H1. Mobility is projected to remain flat, while for other applications, we anticipate a decrease compared to our previous forecast.

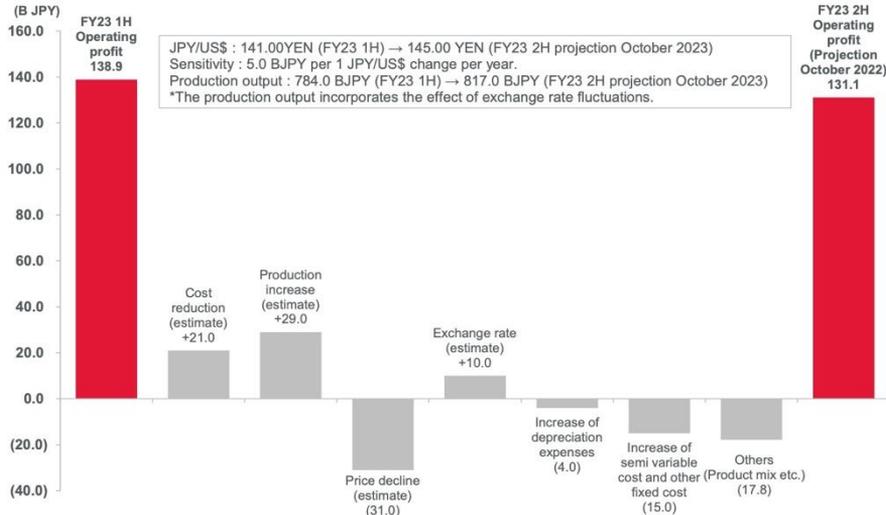
Breakdown of Operating Profit Changes [FY23 Projection (April 2023) to FY23 Projection (October 2023)]



**"Production decrease" is calculated on the basis of production output excluding the effect of sales price reductions and exchange rate fluctuations.

Page 24 outlines the factors influencing the full-year forecast for FY2023 compared to the April projections. The major factors are the production loss and, conversely, the positive impact from currency fluctuations. The decrease in semi-variable and other fixed costs, along with others, product mix, remain largely unchanged from the initial forecast for H1, so I will skip the detailed explanation.

Breakdown of Operating Profit Changes [FY23 1st Half to FY23 2nd Half Projection (October 2023)]



**“Production Increase” is calculated on the basis of production output excluding the effect of sales price reductions and exchange rate fluctuations.

Page 25 addresses the changes from H1’s actual results to the forecast for H2. While we achieved an operating profit of JPY138 billion in H1, we are expecting a slight decrease in operating profit in H2. This decrease is due to the operational profit being offset by price reductions. The negative impact on semi-variable and other fixed costs includes an increase in semi-variable costs due to increased production, and the impact of adopting IFRS, which mandates the lump-sum recording of property taxes in Q4. These factors lead to a total profit decrease of about JPY25 billion. However, we are anticipating a positive profit impact of around JPY10 billion in Q4. This is due to the extension of the retirement age from 60 to 65, which we have already announced. This change delays the payment period of retirement benefits by five years, allowing us to reduce our retirement benefit provisions by approximately JPY10 billion.

Projected Financial Results for FY2023

	FY2023 1st Half Results	FY2023 2nd Half Projections	FY2023 Projections
Depreciation and amortization	85.0 B JPY	89.0 B JPY	174.0 B JPY
R & D expenses	66.3 B JPY	63.7 B JPY	130.0 B JPY
Capital expenditures	108.4 B JPY	111.6 B JPY	220.0 B JPY
Average exchange rate (JPY/USD)	141.00	145.00	143.00

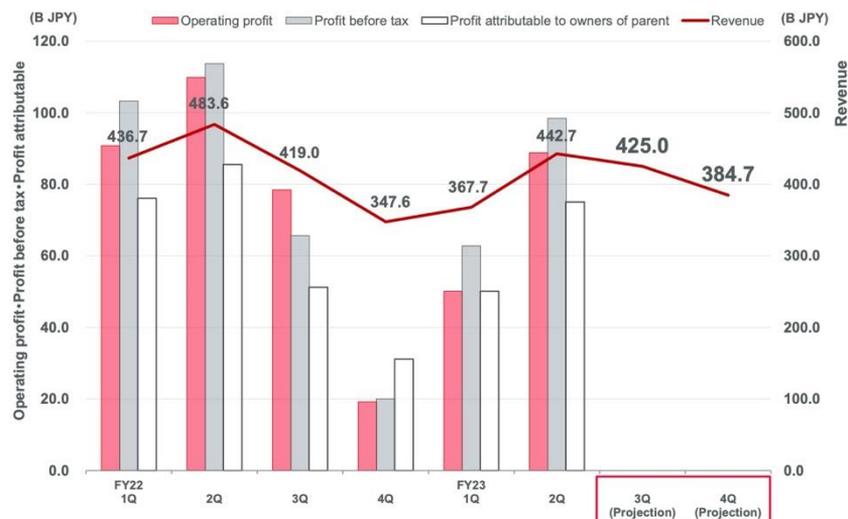
[Exchange rate sensitivity (per 1 JPY/US\$ change per year)]

Revenue FY2023 : 10.0 BJPY

Operating profit FY2023 : 5.0 BJPY

Page 26 presents the assumptions for the performance forecast. There have been no significant changes from the assumptions made in April, except for the depreciation expense, which was adjusted from the initial estimate of JPY170 billion to JPY174 billion. Research and development expenses and capital investments remain unchanged. The exchange rate assumption for the entire fiscal year is JPY143 to the US dollar.

Quarterly Financial Results



*The results for the 3Q and 4Q of FY2022 are presented after being reclassified to IFRS, but the audit by the accounting auditor has not been completed. Therefore, these figures are used as reference for comparison to see changes.

On the final page, we would like to mention about Q3 and Q4. For Q3, we are forecasting revenue of JPY425 billion, and for Q4, which is typically the lowest season, we are forecasting revenue of JPY384.7 billion. This concludes the explanation from my side.

Question & Answer

Moderator [M]: We will now proceed to the Q&A session. Now, I would like to invite Mr. Takayama from Goldman Sachs Securities to ask his questions.

Takayama [Q]: Thank you. I have three questions. First, could you elaborate on how you plan to manage production and inventory levels from Q2 to Q3 and Q4? The purpose of my question is to understand your approach to accelerating or decelerating operations in Q4, based on your assembly plans for Q3 and Q4. Could you please address that?

Minamide [A]: Let me respond regarding our inventory and production values. Speaking of production values, in Q1, it was JPY367 billion, and in Q2, JPY417 billion. For Q3 and Q4, although I don't have the detailed breakdown, we are looking at an increase or decrease in inventory of JPY7.2 billion against sales for H2.

Regarding the breakdown, for both Q3 and Q4, we're envisioning increasing inventory assets by a slight amount, around JPY3 to JPY4 billion for each quarter. This means for Q3, against sales of JPY425 billion, we anticipate production to be around JPY428 to JPY429 billion. Then for Q4, with sales at JPY384.7 billion, we're estimating production levels to be about JPY388 to JPY389 billion.

Regarding the background of this, especially for Q4, we still want to observe how production might swing. As I mentioned in the initial presentation, we believe we've optimized inventory levels, particularly for components, by the end of Q1 and Q2. We intend to produce in line with sales in Q3. For Q4, although we are currently planning to align production with sales, if we anticipate strong demand in the following period, there is a possibility that we might slightly increase inventory. That's all for my response.

Takayama [Q]: Thank you. So, to put it another way, rather than worrying about any further downside risks, your focus seems to be more on how to accelerate into March and April, the early spring months, correct?

Minamide [A]: Yes, that's right. We believe our inventory assets are currently at an appropriate level, so if any adjustment were to be made, it would be towards increasing them in Q4.

Takayama [Q]: Thank you. My second question is about MLCCs. Firstly, how do you view the sustainability of the recovery in automotive MLCCs for Q3 and Q4? Many Asian competitors seem to be facing a downturn, especially towards year-end, and their performance in July to September wasn't very good. My understanding is that your company, having faced inventory adjustments in April to June, is now recovering. I'd like to understand the reasons behind this difference and how you view its sustainability. Additionally, I think there's a risk that competitors might adopt aggressive pricing strategies at the beginning of the year. However, looking at your plans, there doesn't seem to be much change compared to the beginning of the period. While there might be a decline in H2 compared to H1, the initial forecast remains relatively unchanged. Could you share your perspective on this?

Omori [A]: Thank you for your questions. I will respond. Firstly, regarding July to September, there was indeed a certain level of recovery, as reflected in our performance. Based on this, you asked about our expectations for Q3 and Q4. We do anticipate a certain level of recovery. We are looking at factors such as subsidies in China having a positive impact. However, considering the influence of the strikes in the US, we anticipate only a slight increase.

Regarding pricing, our forecast for this term has not yet been directly affected. However, there will be price negotiations in the latter half of the term. The impact of these negotiations will be significant going forward, so our current forecast doesn't reflect these changes directly.

As for the price movements after the start of the new year, there are various assumptions. First, regarding the shift to EVs, there is an intensifying trend of price reductions. We recognize that these trends are already affecting our component sector to a certain extent. We will carefully monitor whether this trend intensifies further and respond accordingly. That's all for now.

Takayama [Q]: Thank you. So, if I understand correctly, there are no quantitative adjustments anticipated, and the gentle recovery in the automotive sector that we saw from July to September will continue through October to December and January to March?

Omori [A]: Yes, that's correct.

Takayama [Q]: Understood. Lastly, about the operations centered on modules, there was a significant increase in profit margins from July to September. I believe there was a mention of this improvement particularly in high frequency modules and multilayer resin substrates. Could you please explain the background behind this better-than-expected performance, and your outlook for H2 and particularly the next fiscal year regarding high frequency modules? There seems to be an atmosphere where gaining market share is challenging. I would appreciate it if you could share your thoughts on the current design and the direction for the next fiscal year. Thank you.

Nakajima [A]: As for the factors that enabled us to secure a certain level of profit, I think there are about three. First, there's the revision of the portfolio of connectivity modules that we've been working on for some time. This revision has started to show some results, which is the first point. Second, this is a bit of a gray area, but in September and October, there was demand for parts from American customers and others. For items like multilayer resin substrates, which have long supply chains, we tend to procure them early. This early procurement had an impact, and it was incorporated into the previous fiscal period, so that's the second point. The third point is, including this, there has been an improvement in the share of SAW filters in China and other areas, which has led to a mix that makes it easier to generate profits.

Regarding the situation of high frequency modules in the next fiscal year and beyond, we believe that we have done what we needed to do. However, we have not seen significant changes from our customers. Looking ahead to 2024, it doesn't seem likely that things will change according to plan. That's the current situation. Even so, for parts that can be replaced, we are shifting our efforts towards replacing them. That's the status right now.

Takayama [Q]: Thank you. Regarding the seasonal adjustments for H2, particularly with North America in mind, should we assume that you've factored in the usual level? I think many companies in the sector are adopting a more conservative approach.

Nakajima [A]: As of now, we are proceeding with the assumption that's consistent with our original expectations.

Takayama [M]: Understood. Thank you.

Moderator [M]: Mr. Sato from Morgan Stanley Securities, please.

Sato [Q]: Thank you. First, I'd like to inquire about the pricing situation for MLCCs. With the increase in ODM production for Chinese smartphones, how is the competition with local players evolving, and what pricing strategy are you adopting for commodity products? Additionally, you mentioned intensified price competition in mobility; does this refer to areas including powertrains and ADAS, or is the price competition more heated in areas with stronger commodity characteristics? That's my first question.

Omori [A]: Thank you. First, regarding the pricing trends in the smartphone sector in the Chinese market. We recognize that the prices for commodity products have significantly decreased. However, this isn't a recent development; it has been ongoing for some time. As for our strategy, we're not just focusing on pricing but also on maintaining a certain market share. This involves internal rationalization and cost reduction efforts. Although there is a certain price gap compared to advanced products, we are firmly addressing this issue. As for the question about pricing fluctuations in mobility, including ADAS and powertrains, the answer is yes. There have been price changes in those areas too. Especially in the EV sector, prices have been moving quite harshly. We have been advancing various internal initiatives in this regard. Although it's not an area where we can completely absorb the impacts, we plan to address these challenges by enhancing production capabilities and rationalization efforts. That's all.

Sato [Q]: Thank you. Especially in the powertrain sector, I believe there are only about two to three players, but are new players entering the market and eroding your domain? Or is it that there's no change in the overall situation, where your company holds over 50% share, and also no significant changes in your position in powertrains and ADAS?

Omori [A]: Yes, maintaining our position firmly is indeed the underlying premise.

Sato [Q]: So, is it correct to understand that there are no changes in your market share?

Omori [A]: Yes, that is correct.

Sato [Q]: Thank you. My second question relates to the three-year postponement of the platform change for North American smartphones. How has this affected the sales projections for XBAR filters and modules equipped with XBAR in the next fiscal year? Additionally, could you discuss the adoption status of high frequency modules in high-end Chinese smartphones and any expected changes in the Chinese smartphone market for the next fiscal year?

Nakajima [A]: Regarding North American smartphones, I think there is an anticipation of platform changes once the platforms are ready. However, it seems challenging for this year and the next. On the other hand, the adoption of our newly acquired technology, such as XBAR, is progressing in other products. By FY2024, we expect business growth in areas such as broad bandwidth and high-frequency Wi-Fi, as well as 5G filters and modules. Regarding the high frequency modules situation in China, and also in Korea, the acceptance of our developed products remains unchanged, and our initiatives are progressing relatively smoothly. That's all.

Sato [Q]: Thank you very much. Lastly, one more point, if I may. Three months ago, you mentioned that the demand for smartphones in China was strong in Q1, and your sales were strong as well, but you weren't expecting it to be as strong from Q2 onwards. Could you update us on how this has changed currently?

Nakajima [A]: I believe we've already seen the bottom in terms of volume. As mentioned earlier, the current sales base is now in new markets where 5G is being rolled out, such as India, Southeast Asia, and Africa. We're seeing an increase in products designed by IDHs or manufactured by emerging makers. These aren't the high-end segment; they tend to include single filters or active devices rather than modules. Therefore, the unit price per set doesn't increase as much as it does for high-end products. That's the current situation.

Sato [M]: Thank you very much.

Moderator [M]: From Mitsubishi UFJ Morgan Stanley Securities, Mr. Uchino, please.

Uchino [Q]: Thank you. I'd also like to ask about the platform change in North America. We understand that this fiscal year and the next are off the table, as indicated by the news flow. I'm wondering if the opportunity is still alive for the fiscal year after next. Also, with the postponement of adopting new technologies, I assume

some strategic changes may be necessary. Earlier, there was mention of Wi-Fi 7, which involves broader bandwidth, the increasing utilization of multilayer resin substrates, and the expected emergence of IoT modules. Could you please share any strategic changes you're considering in light of these developments and diversifications?

Nakajima [A]: As mentioned, there is indeed a delay in the significant changes for North American smartphones. However, based on what we see now, we believe there might be a launch in 2024. We are preparing for this, and in the meantime, we are working to maintain our technological presence. Concurrently, we're also ensuring that our module deployment in countries like South Korea and China does not fall behind. So far, I think these efforts are going well. Regarding the earlier point about XBAR technology, this acquisition enables us to effectively utilize filter technology for Wi-Fi 7 and even future Wi-Fi 8. We believe we'll be able to leverage this new technology in both standalone filters and modules. As for multilayer resin substrates, it's unrelated to the platform, and unfortunately, it varies by year on year. The price for each set fluctuates depending on the complexity and length of the routing, but we are working on maintaining our share and capturing parts that are currently leaning towards other technologies. Regarding IoT, as we've discussed in previous platforms and portfolio conversations, we're making new challenges, focusing on sensor networks as our third-layer business. We're gradually achieving small successes and, within our mid-term plan for 2024, we aim to clearly define the direction we will be taking.

Uchino [Q]: Just to confirm, regarding the new platform change in the US, did you say it might launch in 2024? Or was it 2025?

Nakajima [A]: We are indeed preparing for it, albeit with some optimistic expectations. However, it's a fact that there have been delays.

Uchino [Q]: Understood. Thank you. My second question is quite straightforward. You mentioned that the BB ratio for MLCCs is approaching 1. Could you please share how it has risen in July, August, and September? Also, what are your expectations for order trends from October to December? If possible, could you also comment on the strength or weakness of different applications?

Omori [A]: Thank you for your question. Regarding the BB ratio, it has been steadily increasing in July, August, and September, approaching very close to 1. For the period from October to December, we anticipate it might exceed 1. As for the details, at the start of H2, we have received a certain number of orders for high-end smartphones. Also, the automotive sector has been showing robust orders. As for what happens after the new year, unlike last year, we don't anticipate a significant slowdown. Regarding frequently mentioned sectors like PCs, currently, we don't have high expectations. Specifically for PCs, there are some signs of improvement compared to last year, but the momentum isn't particularly strong, and it's more of a stable situation. Base stations and data centers are also progressing at around the originally projected levels.

Uchino [Q]: Thank you for the clarification. A follow-up on the first question: In the case of Wi-Fi 7, with its high frequency and wide bandwidth, around 320 megahertz or so, am I correct in understanding that a solution like XBAR is essential for achieving wide bandwidth and low loss?

Nakajima [A]: Yes, that's correct. Technically, it's possible to construct a system by combining sharp and broad filters in a forced manner, but using XBAR simplifies this process.

Uchino [Q]: So, would it be fair to say that using a single XBAR could offer cost benefits compared to combining multiple filters?

Nakajima [A]: Yes, indeed. Naturally, there are significant benefits in terms of size, and I believe the advantages are substantial.

Uchino [M]: Thank you very much.

Moderator [M]: Now, I'd like to call upon Mr. Akizuki from Nomura Securities.

Akizuki [Q]: My first question is about the impact on profits in Q2 due to the reduction of inventory. If possible, I would appreciate an explanation separated into components and modules. The reason for this request is that I believe there might have been the realization of unrealized profits, and so I'm curious if the production losses haven't fully impacted negatively, particularly for passive components. Could you comment on that, please?

Minamide [A]: Thank you for your question. I'm Minamide and I'll answer this. In Q2, we mainly reduced inventory in components, particularly in MLCCs, which had a significant impact. As for modules, we did manage to clear out a bit during Q2. Regarding batteries, we haven't been able to reduce much inventory yet. As for the impact, excluding the effects of currency fluctuations, we reduced inventory by JPY33.7 billion in Q2. This includes a bit of material costs. So, if you apply our marginal profit rate to this amount, you can estimate the impact. Now, about unrealized profits, in Q2, as our production rate increased, the inventory valuation adjustment at the end of Q2 mostly showed a negative impact on components. This made it seem like the profit margin in components was somewhat suppressed compared to our actual capabilities.

Akizuki [Q]: So, in Q2, the unrealized profits actually accumulated, right?

Minamide [A]: Yes, that's correct.

Akizuki [Q]: So, that means your underlying strength is quite high. Then, I have a related question. In Q2, sales of inductors significantly increased, perhaps even more than MLCCs, I believe. This is the case with both QoQ and YoY. Given this background and considering your forecast for H2 is similar to H1, it doesn't seem like your inductors are overly dependent on specific smartphone makers or applications. I would think the level of sales could stay around the Q2 level, even accounting for some seasonal decline, but you seem to be forecasting flat sales from H1 to H2. Could you elaborate on the reasoning behind this?

Minamide [A]: Let me explain this as well. Regarding inductors and EMI filters, compared to the same period last year, we had some issues with customer models last year, so there was a decrease YoY for the entire H1. As for the H1 and H2 trends, we expect movements similar to capacitors. For H2, we foresee a slight decrease, particularly in the modules segment.

Akizuki [Q]: So, inversely, are you saying that the Q2 performance was good because of the module segment?

Minamide [A]: Yes, that's part of it.

Akizuki [Q]: Right. And since modules are primarily for Chinese smartphones, I don't feel they would drop significantly, given the current situation of Chinese smartphones.

Nakajima [A]: I think the impact is more from American module makers. Also, the inventory reduction for inductors progressed a bit earlier than MLCCs, which I believe contributed to the sales.

Akizuki [Q]: Understood. My third question is somewhat similar, and I apologize for that. There was mention of improved market share for SAW filters in China, which seems to have significantly contributed to the profitability of devices and modules rather than components. Could you explain what you did to recover this market share and how you currently view its sustainability?

Nakajima [A]: There are two main aspects. First, we shifted our technical resources from modules to standalone filters, which was largely internal influenced by North American smartphones. That's one part

about the allocation of technical resources. The second is related to the growing number of IDHs. We made an effort to be competitive in pricing to address that increase.

Akizuki [Q]: I believe your company didn't used to sell filters for modules externally, especially the low-profile ones.

Nakajima [A]: That's correct.

Akizuki [Q]: So, is there a trend where you started selling such products externally and gained market share?

Nakajima [A]: No, the filters we provide for internal modules are quite specialized in packaging. We don't just rely on that. We've been using conventional discrete filters in modules.

Akizuki [Q]: I see. So, you developed low-profile filters that could be incorporated into modules and released them to gain market share.

Nakajima [A]: That's correct.

Akizuki [M]: Understood. That's all from me. Thank you.

Nakajima [M]: Thank you.

Moderator [M]: Mr. Goto from Mizuho Securities, please go ahead.

Goto [Q]: I have two questions. First, in your earlier explanation regarding the outlook for MLCC in H2, you mentioned that you don't anticipate a slowdown. Could you elaborate on the reasons behind this belief? Also, I'd like to hear more about the current state of supply chain inventory and your customers' inventory management practices. Considering factors like interest rates, many seem to be operating quite leanly, so what changes do you foresee happening in the future?

Omori [A]: Thank you for your question. Regarding the anticipated slowdown in H2, last year we saw a significant slowdown in Q1 to Q3. However, this is a comparative view, and we believe that there won't be a major slowdown like last year. The reasons behind this include, firstly, the steady performance we expect in the automotive sector. To explain in terms of volume and value, although we anticipate a slight decrease in volume, we believe the automotive sector and the mix of product types within it should provide a certain level of assurance. As for the inventory in the market, we believe it varies depending on the business domain or product area. As previously mentioned regarding the smartphone market, we see that the inventory in the market has been reducing. On the other hand, in areas like PCs, where product sales are not particularly strong, we believe there might still be some inventory left from the past.

Goto [Q]: Thank you for your response. My second question is about the situation with batteries. Given that there seems to be a weakening in final demand, and customers also have inventory, could you share your thoughts on how you plan to address and recover from this situation?

Minamide [A]: As we've mentioned before, our focus in the market is on high power batteries, as that's our strength. We've been targeting markets such as power tools and cleaners. Unfortunately, the market for power tools currently has significant inventory excess and demand hasn't recovered, which is a challenge. Our basic strategy hasn't changed; we are significantly reducing our factory operations and focusing on inventory reduction. At this stage, we are looking to increase the range of batteries we offer, particularly those suitable for power applications. We're also dealing with a situation where we have a vast variety of materials in small quantities, so we are working on standardizing these. This is something we need to address internally, and we want to make as much progress as possible during this period.

Goto [Q]: Considering the timeline for improving profitability, what are your thoughts at this point?

Nakajima [A]: We have been consistently stating that improvements are expected within the medium term, towards 2024. However, frankly speaking, as long as we don't see a recovery in demand, we feel that it will be quite challenging.

Goto [M]: Understood, thank you very much.

Moderator [M]: From Toyo Securities, Mr. Yasuda, please go ahead.

Yasuda [Q]: Thank you for your time today. I have two points to discuss, so I'll go one by one. First, I'd like to confirm the operational rates. Could you provide any insights on the operational rates for MLCC in Q2, and what are your expectations for Q3 and Q4?

Omori [A]: I will explain the operational rates for MLCC. Based on operating days, Q1 was at 80%, and Q2 improved to around 80% to 85%. For H2, we expect a bit of stabilization and are anticipating a supply-demand balance, so the rate might be around 85%.

Yasuda [Q]: Thank you. My second question, which I might have asked before since I'm an analyst for retail, I'd like to hear from President Nakajima about the drivers or products that are expected to lead your company's performance in the coming years. Any comments on anticipated areas or products would be appreciated.

Nakajima [A]: This might be somewhat personal speculation, but fundamentally, as I've mentioned earlier, we feel that the overall demand for electronics has bottomed out. However, considering the Chinese economy, we're not sensing a very strong recovery at this point. In terms of promising areas, as was touched upon in a previous question, we are preparing products with the expectation of growth in devices related to the new era of IoT utilizing new Wi-Fi markets, digital twins, wearables, and such.

Yasuda [M]: Thank you very much.

Nakajima [M]: Thank you.

Moderator [M]: From Citigroup Global Markets, Takayuki Naito, please go ahead.

Naito [M]: Thank you for your time. I'm Naito from Citigroup Global Markets.

Nakajima [M]: Thank you. Please go ahead.

Naito [Q]: I have two questions. First, regarding the increasing price reduction pressure on MLCCs for mobility, how significant do you think the impact of this price competition will be in the next fiscal year and beyond? I understand that this might mean a greater price reduction than usual, and I'd like to know if this is a correct interpretation. Also, should we expect this situation to settle down in the next fiscal year, or is it likely to continue for a while? Your insights would be appreciated.

Omori [A]: Thank you for your question. First, regarding the price impact, considering the overall sales in the automotive sector, we do anticipate a certain impact. However, the extent is subject to individual negotiations, and therefore, I regret to say that I cannot provide a concrete absolute value or a definitive answer regarding the impact. My apologies for that. As for the next fiscal year and beyond, based on the trends since the beginning of this year, we don't expect any abrupt changes. That's all from my side.

Naito [Q]: Thank you for your response. In that context, does this mean you expect the significant price reductions, including for EVs, to end this fiscal year and return to normal levels from the next fiscal year onwards? Is that a correct understanding?

Omori [A]: Yes, that's correct.

Naito [Q]: Understood, thank you. My second question relates to fixed costs. You mentioned cost containment measures in your report. Are these measures temporary, or do you plan to maintain this level of cost containment in the coming fiscal year and beyond?

Minamide [A]: Regarding fixed cost containment, as operations scale up, semi-variable costs are inevitably going to increase somewhat. However, for costs that can be managed, given the challenging market conditions, we have tightened our belts this fiscal year and aim to maintain this level of cost control going forward. As for one-off factors, this fiscal year, as I mentioned earlier, we're looking at a reversal of retirement benefit provisions of JPY10 billion in Q4, which will be a positive factor for profits and a reduction in expenses. That's about it.

Naito [M]: Thank you very much for the clear explanation. That's all from me.

Nakajima [M]: Thank you.

Moderator [M]: UBS Securities, Mr. Hirata, please go ahead.

Hirata [Q]: I'm Hirata from UBS Securities. Although we're running short of time, I'd like to ask just one question. With the recent significant depreciation of the yen, I'd like to know about your pricing strategy for MLCCs. Earlier, there was a discussion about the downward price pressure, especially for EVs, but with this depreciation of the yen, do you plan to use it to aggressively gain market share, or has there been any change in your pricing strategy due to the weaker yen?

Nakajima [A]: Thank you for your question. As for whether we plan to be aggressive in the market due to the weaker yen, at this point, the answer is no. We recognize that the depreciation of the yen is a weapon, but we are not considering blindly lowering our prices because of it.

Hirata [M]: Thank you very much.

Moderator [M]: Thank you, Mr. Hirata. With that, we conclude the Murata Manufacturing Q2 financial results briefing for the fiscal year ending March 2024. Thank you very much for participating despite your busy schedules.

[END]

This Q&A contains forward-looking statements concerning Murata Manufacturing Co., Ltd. and its group companies' projections, plans, policies, strategies, schedules, and decisions. These forward-looking statements are not historical facts; rather, they represent the assumptions of the Murata Group (the "Group") based on information currently available and certain assumptions we deem as reasonable. Actual results may differ materially from expectations due to various risks and uncertainties. Readers are therefore requested not to rely on these forward-looking statements as the sole basis for evaluating the Group. The Company has no obligation to revise any of the forward-looking statements as a result of new information, future events or otherwise.

Risks and uncertainties that may affect actual results include, but are not limited to, the following: (1) economic conditions of the Company's business environment, and trends, supply-demand balance, and price fluctuations in the markets for electronic devices and components; (2) price fluctuations and insufficient supply of raw materials; (3) exchange rate fluctuations; (4) the Group's ability to provide a stable supply of new products that are compatible with the rapid technical innovation of the electronic components market and to continue to design and develop products and services that satisfy customers; (5) changes in the market value of the Group's financial assets; (6) drastic legal, political, and social changes in the Group's business environment; and (7) other uncertainties and contingencies.

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