

Murata Manufacturing Co., Ltd.

ESG Meeting 2024 Part 2

March 1, 2024

Event Summary

[Company Name]	Murata Manufacturing Co., Ltd.	
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[Event Type]	Investor and Analyst Meeting	
[Event Name]	ESG Meeting 2024 Part 2	
[Date]	March 1, 2024	
[Time]	16:00 – 17:01 (Total: 61 minutes, Q&A: 61 minutes)	
[Venue]	Daiwa Conference Hall and Webcast	
[Number of Speakers]	3	
	Yuko Yasuda	Board Member (Outside Director)
	Takashi Nishijima	Board Member (Outside Director)
	Takatoshi Yamamoto	Board Member Audit and Supervisory Committee (Outside Director)
[Questioner Names]	Daiki Takayama	Goldman Sachs
	Shoji Sato	Morgan Stanley MUFG Securities
	Hideki Yasuda	TOYO SECURITIES
	Hiroki Sawashima	Sumitomo Mitsui Trust Asset Management
[Moderator Names]	Toshiyuki Kambayashi	Corporate Unit, ESG-HR Group General Affairs Dept. General Manager
	Kazuki Tatsumi	Corporate Unit, Strategic Finance Dept. Investor Relations Section Senior Manager

Question & Answer

Moderator [M]: We will now begin the second part, a panel discussion by our outside directors.

The second part will be facilitated by two individuals: the General Manager of Murata Manufacturing, Kambayashi, and the Senior Manager of the Strategic Financial Department's IR Section, Tatsumi.

Kambayashi [M]: Let me first introduce the panelists for the second part. The first panelist is Director Takatoshi Yamamoto. As a securities analyst, he has extensive experience in analyzing companies in the electronics industry, both domestically and internationally, and possesses specialized knowledge in finance and accounting, as well as rich experience in international corporate management. He was appointed as an outside director of our company in 2019. Currently, he serves as a member of the Audit and Nomination Advisory Committees.

The second panelist is Director Yuko Yasuda. As the Japanese representative of an executive search firm, she has been involved for many years in introducing CEOs, assessments, training, and evaluating the effectiveness of Boards of Directors, bringing a wealth of experience and insights in the field of corporate governance. She has been an outside director of our company since 2018. Currently, she serves on both the Nomination and Compensation Advisory Committees, and she is also the chair of the Compensation Advisory Committee.

The third panelist is Director Takashi Nishijima. He has extensive experience and knowledge as a corporate executive and as chairman of the Board of Directors in a company that globally develops business related to industrial automation. He has been an outside director of our company since 2022. Currently, he serves on both the Nomination and Compensation Advisory Committees.

These are our three panelists.

Now, without further ado, we will move on to the panel discussion. Before we start taking questions from the audience, we would like to hear from our outside directors on the themes that often come up in our daily meetings with investors.

The first theme is about the recent changes in our company's corporate governance. One of the recent changes, as mentioned in the slides from the first part, is the change of president in 2020, marking the first time in Murata Manufacturing's history that a non-founding family member has taken the top executive position.

First, I would like to ask Director Yamamoto about the changes brought about by the presidential transition.

Yamamoto [A]: Thank you. This is Yamamoto. It is well recognized that the change of a president or CEO carries a very strong message to stakeholders, not only at Murata but across all listed companies. Especially since 1944, the founding family has been at the core of management.

Moreover, Mr. Tsuneo Murata, who has now become the chairman, has led the Company to its current stature over 13 years as Representative Director, achieving remarkable results. At that time I had been in the Murata for only two years myself but I thought it would be challenging for the new appointee.

Initially, my focus was more on what message Chairman Murata would convey and how things would change, rather than on President Nakajima himself. Chairman Murata mentioned in the Board meetings, among other places, that while adhering to the Company's philosophy is a given, it's crucial to build governance amidst rapidly changing business environments.

Additionally, Chairman Murata said that enhancing management transparency is essential. Based on this, he said that we have already placed our trust in President Nakajima's leadership, so delegating to him is appropriate, and that my role is to support this. At the same time, he said that his role is to see how we can enhance the effectiveness of the Board. After about two or three years, the effectiveness of the Board would be evaluated later, but I believe the atmosphere has significantly changed. The way things are managed has changed, becoming more energized.

In terms of management execution trends, Chairman Murata has generally refrained from taking the forefront, leaving everything to President Nakajima.

After President Nakajima took over, he distinguished between what would change and what would not. What he said would not change, echoing the current chairman's words, is the Company's founding philosophy and principles, which serve as a code of conduct and criteria for decision-making. While cherishing our principles, we inherit the engineers' curiosity, the ability to improve on-site, and customer orientation, enhancing Murata's economic and social value. This was the first message he issued, representing what will not change.

To further strengthen these unchanging elements, he introduced several messages. One of them is about how we can embark on a growth trajectory in the medium to long term. For this purpose, he brought forward the concept of autonomous decentralized organization management.

This concept, originating from President Nakajima, emphasizes individual autonomy and collective progressiveness among employees, enhancing actions and engagement. Although engagement score has slightly decreased, improving them will lead to the kind of organizational management I mentioned earlier.

Secondly, he stressed the importance of diversifying portfolio management as a way to strengthen the portfolio through innovation. Portfolio management is not just about a three-layer portfolio strategy but also involves restructuring or exiting struggling businesses to achieve a balanced management.

Thirdly, as I initially mentioned, he underscored the significance of creating a continuous cycle of social and economic value, aiming for a sustainable society and enhancing corporate value. He strongly conveyed the importance of risk management, governance, and improving information dissemination and sharing. He is working hard on these aspects.

However, as you know, when COVID-19 hit, it was challenging to carry out activities as planned, and unexpectedly, in FY2021, we saw very large profits, with operating income exceeding JPY400 billion. The operating margin was about 23%, and ROIC reached over 20%. This was beyond our expectations.

Moreover, the exchange rate, which was around JPY110/USD when he became president, rose to JPY120/USD, then to JPY130/USD. This was an unforeseen event. The economic environment has drastically changed. The pullback from this came in FY2022 and FY2023. President Nakajima was entrusted with managing through these turbulent times.

Fortunately, Murata addressed some of the points I mentioned early in response to these changes in the business environment. While short-term profits may be challenging, I think it was probably a good thing when discussing the desired state by 2030.

The issue is, while we talk about medium to long term, we need to balance short-, medium-, and long-term perspectives for stakeholders. This remains a challenge for us.

One challenge is how to accelerate the pace of management transformation. Invariably, questions about unprofitable businesses, including batteries, come up in analyst meetings. Murata, of course, has rules for dealing with unprofitable businesses and business unit evaluations, and we speak based on those rules.

From our governance or monitoring standpoint, the first point is whether the message of the reason for continuing the business is effectively conveyed and how quickly we can accelerate our business speed. These are common to the content of the answers to you.

The second point is whether we can evolve the discussion on future business environment changes and opportunities, making the Vision 2030, which was explained in the first part today, more understandable and relatable for everyone. This includes ensuring everyone is engaged and excited.

The third point, as you know, our business holds a global top share in about 60% of our sales products. When I was in charge, it was 70% or 75%, but now it's around 60% due to the variety of products. Still, having a global top share in 60% of the products is an incredible performance.

In addition, we're in a world of fierce competition. How do we maintain and expand our competitive advantage through innovation, on-site capabilities, and customer orientation? How do we enhance our social and economic value? We need to make this story more concrete and understandable. This is also related to what we mentioned earlier about improving engagement.

The fourth point is that Murata's core competency lies in human capital, as previously stated, and organizational capital. We aim to hire and develop talents in a globally diversified manner, enhancing risk management and further strengthening corporate governance. This is what we need to think about proactively and work on practically.

The fifth point relates to our mission, ensuring effective monitoring and supervision on our part. This remains a challenge for us.

Kambayashi [M]: Director Yamamoto, thank you. Now, let's move on to the next topic.

I would like to hear your thoughts on the efforts to enhance the effectiveness of our Board of Directors and the Nomination and Compensation Advisory Committees, and on the future challenges in this area.

I would like to hear from Director Yasuda on this matter.

Yuko Yasuda [A]: This is Yasuda. I was appointed as director in 2018 and am the most senior outside director among us. The degree of improvement in Murata's Board of Directors in recent years has been quite remarkable. It's part of Murata's culture to wholeheartedly pursue our goals through company-wide efforts, and I believe the results are starting to show.

Last year, we received a silver award for Corporate Governance of the Year, and it is evident from various awards related to disclosure that our commitment to governance is being recognized externally as well.

In the Board of Directors meetings, we have seen very active discussions thanks to the organization of the agenda, comprehensive pre-explanations, and the chair's meticulous management. In addition to meetings with outside directors, opportunities like the annual meeting with employees known as GBS, visits to business sites, and participation in events such as DX Innovators Day have confirmed that Murata's story of value creation is being built not just from the top down but also from the bottom up.

At the Board of Directors meeting in February, we discussed the effectiveness evaluation. Both external and internal directors shared the perception that the Board's effectiveness has been improving. Particularly in terms of risk monitoring, we had discussions about whether there has been a significant change and improvement over the past year, including a fundamental reassessment of what risks Murata faces.

Moreover, we've had very fundamental discussions about what the Board of Directors should be like to increase Murata's corporate value, which I think I can report as essential.

Regarding the various advisory committees, the Nomination Advisory Committee has been reporting and discussing CEO succession, talent requirements, board succession based on the skill matrix, and the development status of female executive officers.

In the Remuneration Advisory Committee, we've been discussing directors' compensation, verification of stock ownership guidelines, and benchmark discussions. As our corporate philosophy suggests, we've also had very fundamental discussions on what a compensation policy that allows executives and employees alike to share the fruits of growth without discrimination, in other words, what a truly Murata-like compensation policy would be.

Progress on ESG initiatives is now included as about 20% of share-based remuneration. Another feature is that since 2022, we've held about three joint meetings of the Nomination and Compensation Committees around January each year, where the evaluation and selection of President Nakajima have been discussed with considerable transparency, which I believe demonstrates the robustness of our governance.

Kambayashi [M]: Thank you, Director Yasuda.

Yamamoto [A]: We have prepared numerous events to enhance the understanding and effectiveness of our outside directors. These include the GBS meeting, which is the Global Business Strategy meeting held in January. It's an event where global participants gather to discuss the new fiscal year's presidential directives, business environment, and strategies for all divisions over two or three days.

Additionally, there are DX Innovators Day, Environmental Innovation Day, and the Management Technology Conference, which are related to DX and manufacturing transformation. There are also visits to main production sites. It's not a matter of going once a month but involves quite a bit of engagement. These activities significantly raise our level of knowledge.

At the same time, we are getting exposed to the gritty best practices rooted across the workplaces and factories, enhancing our understanding. The terms top-down and bottom-up were mentioned, and I believe we are making refined progress in Murata's style while confirming the medium- to long-term direction.

We will continue to monitor to ensure this continues. If there is anything lacking, we have a system in place where we can request the Company to take action accordingly.

Kambayashi [M]: Thank you, Director Yamamoto.

Nishijima [A]: This is Nishijima. Thank you. As Director Yasuda mentioned, during our joint session on nomination and remuneration, we evaluated President Nakajima, focusing on leadership styles and competencies that Murata values highly.

We are implementing several measures towards our medium-term strategies, quantifying progress, engagement levels, and leadership displays. By conducting self-evaluations and evaluations by outside directors and then matching and discussing these, I believe our approach to concrete evaluation mechanisms within the nomination advisory committee and the remuneration consultation is quite advanced among Japanese companies and will effectively enhance efficacy.

This has been built up over many years, or rather, it has been firmly established in the last one or two years. I think it's a very important initiative that will continue to be refined and effectively contribute to efficacy.

Kambayashi [M]: Thank you, Director Nishijima. Moving on to our second theme. I would like to hear from each of the three of you about your thoughts on Murata's management challenges towards realizing Vision 2030 and the desired future state.

Nishijima [A]: Regarding the management challenges towards realizing the desired state of Vision 2030, there are certainly many challenges in both business strategy and management foundation, given the rapid changes in the business environment surrounding Murata.

If asked what the most important management challenge is towards achieving the desired state of Vision 2030, I must say it is innovation. How much we can continue to innovate and create is very important and a crucial point for Murata at present.

As you know, whether it's in our mainstay MLCCs or in the communications field, Murata has practiced innovation and, as Director Yamamoto mentioned earlier, has produced globally leading products in the electronics industry, leading to growth until today. I believe innovation is the driving force.

However, technological innovations, especially in the field of electronics including digital, are changing exponentially, making it increasingly difficult to keep innovating. The management team is well aware of this, but still, within our desired future state, innovation is essential for creating a continuous cycle of social and economic value, "in Murata in everyday life", "Solving social issues", and "Practicing sustainable operations".

We aim to become the global number one component manufacturer through innovation, so it is an indispensable element. Although it's getting more difficult, we cannot avoid it, and the management team is required to continue taking bold and proactive challenges more than ever.

A key point for the Board of Directors is how to support and encourage this.

Innovation generally doesn't have a high success rate and may involve setbacks, so it's important for the Board to provide support and also to discuss how to handle and respond to potential setbacks, as this is crucial for increasing the probability of success.

Taking risks and managing them effectively after taking them is also very important. The Board places significant emphasis on monitoring risk management and the efforts of the management team to improve organizational capabilities and structures for taking risks.

Sometimes, aligning the perspectives on risk preference between the Board and the management team, cooperating if necessary, or engaging in outspoken discussions, is very important.

As Director Yasuda mentioned earlier, there are opportunities to participate in various events, including those related to technological development and innovation. Having been involved in product development myself, I know that a wide range of innovations is constantly being pursued within the Company. Open innovation efforts are also quite advanced.

However, turning these into tangible social and economic values is the responsibility of the management team, so the Board focuses on monitoring the innovation creation process, appropriate risk-taking, and how the organization communicates about these innovation challenges.

Promoting diversity to drive innovation is another key monitoring point, as there are many aspects to pay attention to.

You might have heard or seen on our website about the Information Meeting last November, where President Nakajima reflected on Murata's growth trajectory and how the electronics industry has grown along with the semiconductor market. Murata has grown at a rate exceeding that of the electronics industry by adding a second layer.

I believe he mentioned that we are now adding a third layer to exceed the base growth rate of electronics. This second layer is crucial for improving profitability, and the third layer, especially, represents a gap from

Murata's past efforts because it involves identifying latent needs that have not yet become apparent in the market and turning them into solutions.

To translate such efforts into results, it will undoubtedly require proactive and, at times, bold challenges. As the Board of Directors, we want to create an environment that supports such initiatives, and as an outside director, I am committed to contributing to this effort.

Kambayashi [M]: Thank you, Director Nishijima.

Yasuko Yasuda [A]: Regarding our growth strategy for 2030, I see that we are taking necessary actions towards autonomy, autonomous decentralization, and digital transformation. A question was raised about our biggest challenge: how to create a continuous cycle between social and economic value. This is something we need to work on over the long term. It involves disclosing various measures to the public, which I believe is a challenge.

As for the business aspects, Directors Yamamoto and Nishijima will explain, so I would like to focus on what I am most interested in as part of my role: human capital. Murata's strengths, such as vertical integration, unity, and a culture of empathy, may in some ways be hindering diversity.

Breaking through this culture while enhancing its strengths is something we need to work on in the coming years. I believe it will help to overcome the lack of engagement.

Regarding the promotion of women's participation, we are steadily working towards the goal of 10% female managers by FY2030, and we have already exceeded a 50% male paternity leave take-up rate at our headquarters. With respect to diversity and inclusion and equity, various measures are being implemented on the ground, and I believe we are making progress in generating innovation from diversity. Therefore, pushing forward with these initiatives is both a challenge and an expectation.

Kambayashi [M]: Thank you, Director Yasuda.

Yamamoto [A]: I mentioned some management challenges at the beginning, and I'd like to conclude with something related to the work I've been involved in.

As you know, Vision 2030 and our desired growth strategy involve two major elements: advancing portfolio management through the evolution of our core businesses and changing our business models, which includes a three-tier structure. The second is executing four management transformations aimed at strengthening our management foundation.

In a rapidly changing global context, whether we can proceed organically and whether we have sufficient management resources to address this internally are significant challenges.

Firstly, we have a world-leading share in 60% of our products, including MLCCs, and if we can continue to grow by 10% annually, the next step would involve considering vertical integration and horizontal strategies in the face of intense competition and emerging competitors. These may come up in discussions.

Regarding the three-layer business, we aimed to create a JPY100 billion business by 2030, which is not a small size of business. The question is, when will we see bold investments in this area, given our current financial and management capabilities?

While we are currently employing a somewhat different approach, one issue that arises is the role of M&A, or acquisitions, as part of our strategy for moving to the next stage, including strategic investments.

Secondly, we have significant dependencies on MLCCs, the Chinese market, and major clients. Although we have been dependent on telecommunications, the automotive sector is growing, so we are achieving a more balanced application mix. How we should structure our organization to reduce these dependencies while maintaining high profitability is the second point.

Thirdly, innovation is a theme we often discuss internally as Director Nishijima mentioned. It is important to ensure that new products and services, which are the result of innovation, have a large weight of the overall business.

However, as business diversification increases, new products ratio tends to decrease, which inevitably impacts profitability. Therefore, enhancing our innovation and new product development capabilities is a theme and challenge we need to monitor.

Kambayashi [M]: Thank you, Director Yamamoto.

Moderator [M]: We will now take questions from participants here.

Takayama [Q]: Thank you very much. This is Takayama from Goldman Sachs.

Thank you for the fascinating insights. I'd like to ask Mr. Yamamoto for your perspective on Murata but from a slightly different angle. In the last 20 years, the companies in Japan's electronics industry that have survived and grown, including both conglomerates and consumer electronics, have become quite remarkable.

Looking at the current state of the electronics industry from a horizontal perspective, I believe each company has its managerial challenges. Within this context, could you share where Murata excels and, conversely, where it might still be lacking compared to the broader Japanese electronics industry viewed horizontally?

Additionally, you mentioned the possibility of accelerating the pace of management changes. However, in the latter part, I also felt that this company has been able to make significant strategic moves when technological shifts occur, capturing major opportunities. Rather than aggressively taking things from others, it seems to have prepared a more passive approach, waiting for the right moment when technology significantly changes. Even if you want to speed up, there seems to be a limitation unless the world changes.

Considering we are heading towards 2030, if the world doesn't change, it might be challenging for the Company to progress. However, if there are areas where you believe speed can be increased, could you elaborate on which areas those might be?

Kambayashi [M]: There are a couple of points here: Murata's strengths and areas for improvement and the issue of how to accelerate our transformation beyond the speed of the world itself.

Mr. Yamamoto, what are your thoughts?

Yamamoto [A]: My first visit to Murata Manufacturing was in 1977, and an unbelievable number of years have passed since then. At that time, I had the opportunity to meet the founder and learn earnestly about Murata's strengths and its medium-term business strategies, which was an invaluable experience for a young person like me.

Sitting here today is deeply moving and something I am very grateful for. The strength of Murata that I felt back then revolves around the Company's philosophy, established nearly a decade after its foundation. I believe many of you have seen these principles, and if we were to apply them as they are today, they would perfectly align with SDGs and ESGs, capable of being delivered as is.

It was the founder who created these, and their strength, including the code of conduct and business philosophy, continues to be relevant today, as President Nakajima also mentioned in Part1.

The second point is our vertically integrated business model from materials to manufacturing technologies. This approach is still alive and well today, particularly in terms of MLCCs and inductors. However, when it comes to the second layer or the third layer, different factors come into play, which may require us to incorporate different elements to continue serving our customers effectively.

The third is our scientific approach to management, which I believe is also part of our initial principles. Another strength of Murata is in management control. We apply a rigorous management control system at our headquarters and in our group company, under which we continuously manage profits, productivity, and quality. I believe this is the strength of our operations on the ground. These three strengths have not changed even today.

However, as I mentioned earlier, it is a fact that these strengths alone may not be sufficient to navigate changes in the business environment. Under the new administration under President Nakajima, we are focusing intensely on this, though it's not a short-term issue. As someone who has been in the capital markets, I tend to look at things in the short term, over two or three years, but when he tells me, "Mr. Yamamoto, we are working on a ten-year timeline," I understand.

The chairman often said to me, "Mr. Yamamoto, this is about a two- to three-year plan, right? But we are looking ten years ahead, exploring and taking on challenges to see what changes will emerge over the next 5 or 10 years, sowing seeds and preparing so that we can quickly adapt when the time comes."

At the same time, he is looking at which companies are going to grow from the perspective of our customers and betting on them. This approach might have been the same for European mobile phone manufacturers or PC makers in the past.

However, due to the very rapid changes in the management environment, it takes more time and costs more to prepare. This seems to be different from the past when we could expand horizontally with volume.

Therefore, if a business is unprofitable, for example: "What will you do with the batteries?" which was also asked last time. We acquired that business in 2017, and it's been seven years. From a 10-year management perspective, it's still only seven years. The important thing is to understand the purpose and expectations of acquiring this business.

What scenario did we create at that time, and how is it shared among everyone? Seven years later, is there a divergence from the initial purpose and expectations? If there is a divergence, what is it, and how can we recover from it? Can we transform the business, or is it better to continue as is? These are the types of themes that need to be addressed.

This is an argument from the management's point of view. So, our role is to monitor the discussions are well conducted and managed.

Kambayashi [M]: From the perspective of how to monitor technological speed as an outside director, may we have a comment from Director Nishijima?

Nishijima [A]: I believe it's not just about the speed of technology. As Director Yamamoto mentioned, this is something you wouldn't understand unless you're inside, but borrowing President Nakajima's words, it's important to autonomous and decentralized organizational management. Murata is a large organization seriously working towards creating an overall optimization while maintaining autonomy in each of their respective roles.

From the standpoint of someone who has managed companies, this is an extremely sophisticated and challenging task. However, it's deeply integrated into our philosophy, and the fact that it's functioning in such a manner is quite unique and represents an excellent corporate culture among Japanese companies. It's often said, not just by Drucker, that culture eats strategy for breakfast. Recently, some say that culture itself is the strategy, and there's no doubt that this lies at our foundation.

However, it's not something static. We have our company philosophy, but it's not something we cling to as if it should never change. Rather, we focus on how to dynamically evolve it as the environment changes. We're committed to identifying what needs to change and working hard on those areas. This is the message President Nakajima is sending out, asking where Murata's strengths can be augmented and what needs to be done to achieve that.

This is the source of Murata's strength. The ability to create unique technologies and innovate in manufacturing is fundamentally rooted in our corporate culture. Of course, we have many excellent engineers working, people are fluid, and matrix management is functioning well among other visible characteristics, but at the core, I believe that's where it truly lies.

Although I've only been here for just under two years and it hasn't been very long, I strongly feel this during my time here.

On the other hand, as mentioned, starting with Product Out, Market In, and then exploring latent needs to aggressively anticipate them, we said "Market Out" is really just beginning as a challenge. This is a wall that any company, particularly in Japan's manufacturing sector, will face when moving towards solution-oriented business models. Naturally, Murata faces these walls too.

How we overcome this, what kind of measures and strategies we should consider, is something we need to continually question. Today, during the ESG briefing, we've shown examples of this, so it's about how we can increase such initiatives. It is also necessary for us to share successful cases in a visible manner and then expanding and scaling those actions.

Kambayashi [M]: Now, let's move on to the next question.

Sato [Q]: My name is Sato from Morgan Stanley Securities.

Earlier, Director Yasuda mentioned that the strengths of Murata Manufacturing may in some respects be hindering the advancement of diversity. I think there are many challenges around this, such as not being able to effectively utilize acquired companies or having to adopt different methods at the second layer compared to the first layer.

I would ask Mr. Yamamoto what solutions might be considered for these issues? I would appreciate your insights.

Kambayashi [M]: On the issue of the challenges posed by the conflict between Murata's strengths and diversity, Director Yamamoto, please.

Yamamoto [A]: Thank you very much. At least what needs to be stated first is that our stance towards diversity is not at all negative. Since I joined in 2019, there has been considerable discussion about diversity within the Company, and Ms. Yasuda has been at the forefront, involving herself significantly in talent development and recruitment among other areas related to diversity and inclusion, D&I.

When we talk about diversity, it's not just about men and women. I believe there's a multitude of diversities, including but not limited to national boundaries, age, and career or experience. I don't think the strengths of Murata in some respects be hindering the advancement of diversity.

Rather, I feel that Murata Manufacturing's kindness is perhaps at the core of our management philosophy. This is evident, for example, in our approach to M&A operations and respect towards partners. We haven't adopted the American way of quickly taking over and aggressively imposing the Murata way of doing things upon acquisition.

It's true, as you said, that this approach takes more time. While this may somewhat deviate from the diversity of the Company I mentioned, I have felt that Murata's distinctiveness in terms of strategic diversity might be overly pronounced in some areas.

Also, the Company's sales were over 90% overseas, yet unfortunately, only 65% of production is domestic. In such cases, it becomes somewhat difficult to gather resources or human capital abroad, especially for development or for being closer to customers.

When the company aggressively expand overseas and make acquisitions, the personnel changes.

However, having foreigners on the Board, including executive positions, might be a good idea. Though introducing foreign nationals directly into the Board of Directors might have high hurdles, it was two years ago, I believe, when Mr. David Kirk, who was the top executive in our US operations, joined us as an executive officer. Being a long-standing individual in our company, his inclusion has gradually allowed us to step up.

His appointment has probably allowed other foreign executives to see a career path here, or even those below them are noticing these advancements. At the very least, I want you to understand that we are not easing off the accelerator but pressing on it.

Sato [Q]: On the other hand, I think your company's management control system seems to be too stringent, has seemingly prevented you from fully embracing companies you've acquired.

In creating new businesses, how do you plan to utilize these acquired companies?

Yamamoto [A]: Discussing what to do with acquired companies is more a matter for the executive side, so it's not really our place to speak. However, if there are lessons to be learned from these companies, it's about how we can utilize these learnings.

There are cases of both failure and success, and I believe these experiences become a resource, an asset within the Company. This includes the people who have gone through these experiences. By having them, when we do the next M&A, including due diligence, we can probably go deeper. This is something we are constantly asking executive side.

As the third layer, I just want you to understand that there's this perspective as well. So far, our M&A activities have had two types. As for the first point, acquiring new and diversified businesses, which is true for companies like TOKO CO., LTD, TOKYO DENPA CO., LTD, and also the battery business.

As for the second point, in the last two to three years, with Eta Wireless and Resonant, for example, it was more about acquiring technology. We want to enhance the level of our high-frequency modules or components, or meet the needs of our customers, by acquiring what we don't have. We've spent tens of billions of yen on these two types of acquisitions.

Our financial condition has increased our debt gradually, but there are no problems from a balance sheet perspective. In terms of risk appetite, we believe the market understands that we are a company that can take on this level of risk.

To strengthen our third layer business, even if a lot of capital suddenly need in reasonable scenario , I don't think it would cause any noise. I see it as a constructive form of aggressive risk-taking. This is the reality of how we continually question and participate in management.

Kambayashi [M]: So, can we have Director Yasuda could comment on how the executive team is tackling diversity and its monitoring?

Yuko Yasuda [A]: My earlier comments may have caused some misunderstanding, but I believe the importance of diversity is profoundly understood at the grassroots level. After participating in a diversity event and seeing the feedback, I can say that nearly everyone understands that diversity is a catalyst for our company's future growth.

To address Mr. Sato's question, not as a solution but as an observation, I believe we are preparing more for the changes and transformations brought by generational diversity than expected. We are currently delegating more authority to younger staff, which I think will further advance diversity. I am monitoring this progress with a sense of urgency but am reassured by what I see.

Yasuda [Q]: My name is Yasuda from TOYO SECURITIES.

Having heard various discussions from the outside directors today, I found the talks very intriguing. From the perspective of an outside director, when looking at Murata Manufacturing's capital efficiency and the strengthening of human resources, what are the perceived challenges and what advice has been offered?

Kambayashi [M]: So, the question is about the advice on Murata's capital efficiency or human capital.

Could we start with a comment on human capital from Director Yasuda, please?

Yuko Yasuda [A]: Regarding human capital, there is actually a session scheduled for March this year to fundamentally review it once again. Through this session, we have planned to participate in what you might call an advisory meeting, so I think that's one of the actions being considered.

Kambayashi [M]: As for capital efficiency, Director Yamamoto, could you please share your insights?

Yamamoto [A]: The equity ratio is quite high, but as explained earlier, the cash position has significantly changed compared to the past.

There was a time when I was an analyst, Murata had cash reserves for over 10 months. I remember to ask, "What are you going to do with ten months of cash?" Murata's response was, "What if the world situation changes drastically and orders drop to zero for a year? That's why we need this much." That was decades ago.

However, that was before we were making annual capital investments of JPY200 billion or JPY250 billion like we do now. At that time, the business itself was at its first layer. Particularly for MLCCs, without such capital investment, it's impossible to maintain the service to our customers, in terms of delivery, price, and quality.

Therefore, when looking at capital allocation, the portion for capital investment is not small at all. Moreover, based on that, we are considering a shareholder return policy for the remaining portion. At the same time, we have incorporated ROIC as one of our management indicators, even though we think the ROIC we created in 2021, over 20%, is too high.

But we are monitoring investments and the profitability of each business with this in mind. It would be a caution if it falls significantly, but for now, we are managing it properly. I just want to make sure that's understood.

Kambayashi [M]: Director Nishijima, if you have any additional comments, please go ahead.

Nishijima [A]: As mentioned earlier, among the six capitals of management that Murata talks about, human capital and organizational capital are considered very important by the management.

How we are monitoring and strengthening these areas as a Board of Directors is crucial. We don't directly intervene to strengthen them. Instead, we continuously ask what the ideal state is, what kind of human capital we aim to develop towards our goals, what gaps exist, and how we plan to bridge these gaps. This ongoing questioning is vital.

Naturally, the management team is aware of these points, but it's about visualizing and presenting these ideas. Engaging in such inquiries is part of the discussions within the Board of Directors, and I believe it would be helpful to imagine these discussions are taking place.

Sawashima [Q]: I am Sawashima from Sumitomo Mitsui Trust Asset. All three of you are members of the Nomination and Advisory Committees, and earlier, Ms. Yasuda provided an explanation about those efforts. However, in the discussions so far, what kind of new strategies different from Murata's previous ones are being considered at the second and third layer? What kind of board member's diversity are needed for this?

Are the current members sufficient, or is there a need for new members? Of course, CEO succession is important, but when considering board succession, to what extent have discussions been held about what skills are necessary, including skills not currently shown in the skill matrix? I would appreciate any information you can provide. Thank you.

Kambayashi [M]: The question concerns the discussions on what kind of board members and skills are necessary for future strategies.

Director Yasuda, could you please respond?

Yuko Yasuda [A]: Discussions on board succession were indeed conducted at the Nomination Committee meeting in February. There are probably two main points. One is the debate on continuously incorporating individuals who have expertise in the technological fields Murata should focus on in the future, such as automotive and telecommunications.

Another point is about institutional investors and perspectives on the capital market. We currently have Director Yamamoto. This is a very important aspect for Murata. We believe it's a skill set not found in other companies, but it's indispensable.

To tell you the truth, Murata's outside directors have been relatively advisory in nature, consisting of a group of experts. Last year, when Director Nishijima joined, the importance of having someone who has managed a listed company as a director were felt by all directors to significantly enhance the effectiveness of the Board, so I think we will continue to seek management experience.

Kambayashi [M]: As someone with corporate management experience, we would also like to hear from Director Nishijima.

Nishijima [A]: My opinion concerns the discussions that have been held. In effectiveness evaluations, the current composition is always questioned, and we are discussing it.

As Director Yasuda mentioned, our company truly has a diverse background with specialists in various fields. Someone like me, who has worked in the very broad area of management, is one among many highly specialized individuals.

From my first impression when joining this board, I felt that discussions are highly effective in terms of being able to view matters from multiple perspectives.

We are also discussing what skill sets will be necessary for the direction Murata aims to head towards in the future, as mentioned earlier. Topics such as industry or technology areas, nationality—whether it's immediately needed or not yet as critical, and age diversity. Especially in the electronics industry, which moves fast, discussions at the Nomination Committee are very active.

In this context, including board succession, we are annually updating and cycling through PDCA processes.

Kambayashi [M]: I would like to conclude the second part of this session.

[END]

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