Kyocera Corporation

Outline of Q&A on Financial Presentation for the Year Ended March 31, 2019

（Held on April 26, 2019）

[Components Business]

Q: With regard to the Components Business overall, how have the order situation and forecast changed compared with three months ago?

A: In the fiscal year ending March 31, 2020 (“fiscal 2020”), orders for components used in mobile handsets are clearly down compared with typical years. Demand continues to be both stable and strong for advanced driver assist systems (ADAS) and we expect further growth in fiscal 2020. Orders for components for base stations in the 5G field have started to come in. Orders have been rather slow on the whole in fiscal 2020.

Q: What is sentiment like in component markets, especially for capacitors and packages?

A: It still feels like there is a shortage of capacitors in the market as conditions remain relatively solid. Orders have been slow for crystal components for mobile phones, as well as for packages used in these components.

Q: In terms of demand for the 5G field, which components in which segment do you expect to see growth going forward?

A: The clearest areas of growth are related to capital investment. We are receiving inquiries for components for base stations. Demand for electronic devices has been particularly strong. We are also focusing on certain filters and other areas and we are therefore seeing mild growth in the Industrial & Automotive Components Group. These products will probably be used for ADAS in the period of expansion. We expect growth in automotive-related areas and road-side units, where we are pursuing R&D.

Q: Are there any components aside from ceramic packages where there is potential demand for use in 5G handsets?

A: We’re not sure what shape 5G smartphones will take. Smartphone manufacturers are currently investigating this, so it’s difficult for us to know at this stage.

Q: Although Kyocera is conducting a variety of structural reforms, it seems that some businesses are still struggling such as the Liquid Crystal Displays(LCDs), crystal components and organic materials businesses. What sort of additional measures will you take to remedy this?

A: Despite we recorded an impairment loss in the organic materials business, we still have high expectations for this business. We have received a huge number of inquiries in the fields of 5G and ADAS. Although we still have to sort through the orders, we do aim to make this into a growth business. In the LCDs field, we aim to leverage our HUD and TFT technologies, which are strengths of Kyocera, and apply them in medical and other fields. Market conditions remain tough for crystal components on the whole. We intend to work on high-value-added products that our competitors find hard to emulate as we did with our ultra-small components as part of a non-volume-focused strategy.

[Financial Forecasts]

Q: With regard to forecasts for fiscal 2020, it seems that sales revenue is projected to increase while profit is projected to decrease in such segments as the Industrial & Automotive Components Group, Electronic Devices Group, Communications Group and Document Solutions Group. Is this premised on yen appreciation?

A: The impact of yen appreciation will be large on the whole. In the Industrial & Automotive Components Group, we have actively conducted capital investment, which has led to an increase in depreciation costs, making it difficult to advance profitability. In the Electronic Devices Group, demand has slowed for components used in mobile phones, and we forecast profitability to decline due to a decrease in unit prices as a result. In the Communications Group, there was a temporary profit in the fiscal year ended March 31, 2019 ("fiscal 2019") while R&D expenses increases in fiscal 2020. In the Document Solutions Group, yen appreciation has had an effect while R&D expenses are on the rise as we push new development.

Q: Can you tell us the fiscal 2020 forecast for the Communications Group for each of the telecommunications equipment business and Kyocera Communication Systems (KCCS)? Why is profit projected to decline even though sales of base stations in the 5G field are expected to increase?

A: Profit in the telecommunications equipment business is expected to remain roughly unchanged whereas conditions are expected to become a little difficult at KCCS. Telecommunications base station-related business is growing, but there is a shortage of labor, so we are thinking that the increase in personnel costs may lead to a decline in profitability.

[M&A]

Q: Have the M&A activities conducted in the fiscal year ended March 2018 contributed to sales revenue and profit?

A: In terms of sales revenue, we saw a contribution of approximately 50 billion yen in fiscal 2019. The profit ratio was around 5%.

Q: What is the contribution expected to be like in fiscal 2020?

A: The contribution of M&A activities conducted in fiscal 2019 is expected to be around 25 billion yen in sales revenue with a profit ratio of 5% for fiscal 2020.

Q: What steps will you take to improve the profit ratio to a level on par with the entire Company?

A: It is difficult to achieve synergies in the first fiscal year following an acquisition. In addition, we will see depreciation of intangible fixed assets immediately after acquisition, so the profit ratio will remain low until around the second year. After that, we expect synergies to emerge and therefore to basically double the profit ratio.

[Solar Energy Businesses (Life & Environment Group)]

Q: With regard to assumptions for fiscal 2020 forecasts, what are your expectations for production volume and price? Also, I believe you are conducting trial experiments for new businesses such as the virtual power plant (“VPP”) business at the moment. Can you tell us the challenges you expect in creating this future business model?

A: We aim to achieve production volume of 0.7GW in fiscal 2020. We think prices will decline by around 15%. In regional areas where detached housing is prevalent, it is possible to cover power using the renewable energy generated through solar power, but things become more complicated in cities like Tokyo where housing complexes are more common. Overcoming this issue will be a major challenge in the VPP business and other areas. To this end, we aim to increase the popularity of solid oxide fuel cells (SOFCs). One issue will be how we create a scheme to achieve this and we hope to resolve this somehow in fiscal 2020.

Q: What are the challenges and possibilities that have been uncovered in the system trials being undertaken at the Nakayama Office (Yokohama, Japan)?

A: We have created software to optimize the system and are currently testing it. We do realize that we need to keep driving innovation. Although we are conducting experiments to be able to identify digitally where and in what manner power is being produced, we are not at the stage of practical implementation yet.

Q: I presume that Kyocera have told block chain technology. I believe you have to build and test a block chain server for this, but what sort of cost will this entail?

A: R&D expenses are expected to increase by around 10 billion yen in fiscal 2020 and the cost of this particular project will be significant.

Q: With regard to the self-consumption model set to get underway this year, you have stated quality assurance over the long term as Kyocera’s competitive advantage, but what is your area of advantage over Japanese companies?

A: We provide similar services to those of other Japanese companies, but we do not have the precondition that our products must be used like our rivals other than solar modules, in the business we are putting forward with The Kansai Electric Power Co.,Inc. Another area of competitive advantage will be our ability to supply power at somewhat cheaper rate than buying it from electric power companies.

[Document Solutions Group]

Q: Although you are expecting continued growth in this business in fiscal 2020, global market conditions are rather poor. Can you tell us the assumptions behind your financial forecast? Also, do you see any changes in risk for the business as a whole?

A: The market is diminishing and the biggest risk we face is declining print volume due to advancing paperless environments. Our market share still isn't high, so we will cover this by expanding sales channel and boosting market share. We plan to do what we can to strengthen the solutions business, which will include M&A activities.

[Shareholder Returns/ROE]

Q: I think Kyocera has made significant progress in strengthening shareholder return. You have stated that you repurchase your own shares as needed within a certain range based on cash flow. Will this be used as a way to achieve ROE targets? How much surplus cash do you have on hand at the moment? It says you have around 500 billion yen in cash on the balance sheet, but how much of this can you actually use?

A: We announced that we would repurchase our own shares within a certain range based on cash flow and basically this means we will look at the amount left after deducting dividends from free cash flow. We also plan to use some of the cash for capital expenditures and M&A activities. If there is cash leftover after taking these into account, we will be to use it to repurchase our own shares. We haven’t considered increasing cash beyond this level. Considering working capital, we should be able to use about half of this amount of cash on the balance sheet. And yet, we will actively use our cash on capital expenditures, R&D and M&A activities to drive corporate advancement and growth in the future.

Q: Do you plan to repurchase your own shares every year? I am sure you also have a long-term goal for M&A activities and capital expenditures. What sort of period will you be looking at for free cash flow as a base for deciding on share repurchases – a fiscal year basis or more like two to three years?

A: We will first consider share repurchases on a fiscal year basis. However, if we stick too closely to this, we may be prone to make misjudgments. So while we will work on the basis of conducting share repurchases each fiscal year, we will also look at the situation from a medium-term perspective.

Q: Kyocera would need a significant amount of net income, if you want to boost ROE to 8% based on total equity attributable to owners of the parent ("shareholder's equity") at the end of fiscal 2019. That means in reality it might be really difficult to achieve your ROE target based on a two to three year period without making hefty share repurchases.

A: Although share repurchases are one way to increase ROE, there is no point setting an ROE target that we cannot achieve by increasing sales revenue and profit. We will look at repurchasing our own shares with the objective of covering a part of our target, with growth viewed as the base indicator.

Q: Does that mean you won't conduct a share repurchase in fiscal 2020 since it is possible that you will achieve the target value of 6% in ROE based on the current profit forecast? Or will you make a share repurchase if there is free cash flow leftover?

A: We will aggressively make investment to drive corporate growth. We will then make a share repurchase if there is free cash flow leftover. If there is a major investment project in the works, we will consider share repurchases on a two to three year basis.

Q: With regard to your ROE target of 8%, is Kyocera aiming to maintain its current level of shareholder's equity through share repurchases, etc. since shareholder's equity will increase as profit grows? If that's the case, you will need approximately 240 billion yen in operating profit in order to achieve ROE of 8%. Do you intend to achieve that ROE target through profit growth?

A: Basically, we would like to achieve our ROE target through profit growth if at all possible, but since the hurdle may be too high to do so, we will look at the entire picture before making a decision. We haven't determined the level of shareholder's equity we are aiming for at the moment.

Cautionary statement

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