Financial Review

Outline of Business Performance

In the fiscal year ended March 31, 2017, the business environment surrounding the TAIYO YUDEN Group maintained a tone of moderate recovery for the global economy as a whole despite some weaknesses. Although the recovery trend is expected to continue going forward, the situation continues to be unpredictable; such as the outlook for China and emerging economies in Asia, the impact of government policies in individual countries, and exchange rate trends.

The Group aims to achieve its medium-term targets and management vision by focusing on growth markets such as communication equipment and automotive and industrial equipment centered on the solution business that leverages the Group's core technologies, in addition to super high-end products and high reliability products that draw on the Group's strengths of research and development and production technology.

In the communication device market, demand for ultra-small and high reliability components is expected to rise significantly because of a sharp increase in equipment connected to the Internet. This increase results from the development of the IoT as well as continued advances in smartphone functionality and performance. In the automotive and industrial equipment markets, demand for large, high voltage resistant, high reliability components is expected to rise along with the proliferation of hybrid and electric vehicles and the further advances of electronic components in industrial equipment.

In these markets, the Group is working to expand sales of highly competitive, super high-end products and high reliability products, such as capacitors, inductors, and integrated modules and devices. In the solution business, another focus of growth, the Group is promoting the development of new businesses that combine the Group's core technologies in the following areas: multilayer, optical, integration, surface processing, wireless, and power supply. The Group is also working to strengthen monozukuri (manufacturing) capabilities in order to build a system that will enhance profitability and meet future increases in demand for components. In addition to enhancing production capacity, the Group is accelerating improvements in production efficiency by promoting advances in underlying technologies and transforming production methods.

As a result of the above, in the fiscal year ended March 31, 2017, consolidated net sales decreased 4.0% from the previous fiscal year to ¥230,716 million. This was partly attributable to the impact of appreciation in the value of the yen in the average foreign currency exchange rate compared to the previous fiscal year.

Selling, General and Administrative Expenses

In the fiscal year ended March 31, 2017, selling, general and administrative (SG&A) expenses declined ¥1,068 million from the previous fiscal year to ¥38,968 million. While R&D expenses increased, the main factors for the decline were decreases in tariffs and commission fees as well as patent fees. Despite this decline in SG&A expenses, operating income also declined 47.0% year on year to ¥12,385 million.

Other Income (Expenses)

In the fiscal year ended March 31, 2017, other expenses – net came to ¥4,878 million compared to ¥5,086 million in the previous fiscal year. Although TAIYO YUDEN reported an increase in subsidy income and a decrease in the loss on valuation of investment securities, other income was more than offset by other expenses including an increase in impairment loss on property, plant and equipment. As a result, net income attributable to owners of the parent company fell 63.2% from the previous fiscal year to ¥5,429 million.

Financial Position

Assets

Total assets as of the end of the fiscal year ended March 31, 2017 stood at ¥271,149 million, up ¥2,769 million from the end of the previous fiscal year. Current assets decreased ¥2,307 million. While trade notes and accounts receivable increased ¥4,031 million, this decrease in current assets was mainly due to the downturn in cash and cash equivalents as well as time deposits of ¥5,893 million. Fixed assets increased ¥5,076 million owing largely to the upswing in property, plant and equipment of ¥4,049 million.

Liabilities

Total liabilities stood at ¥116,999 million as of the end of the fiscal year ended March 31, 2017. This was ¥1,999 million higher than the end of the previous fiscal year. While long-term borrowings decreased ¥11,089 million, major increases in liabilities included trade notes and accounts payable of ¥3,305 million, short-term borrowings of ¥4,483 million and current portion of long-term borrowings of ¥4,873 million.

Net Assets

Net assets stood at ¥154,150 million as of March 31, 2017, up ¥769 million from the end of the previous fiscal year. Principal movements in net assets were an increase of ¥5,428 million on net income attributable to owners of the parent company, a decrease of ¥2,356 million on cash dividends, an increase of ¥1,171 million in net unrealized holding gain on securities and a decrease of ¥3,639 million in foreign currency translation adjustments.

Status of Cash Flows

Net cash provided by operating activities in the fiscal year ended March 31, 2017 was ¥29,692 million, down 22.4% from the previous fiscal year. The principal cash inflows were income before income taxes of ¥7,507 million, depreciation and amortization of ¥24,908 million and an increase in trade notes and accounts payable of ¥3,595 million. The major cash outflows were an increase in trade notes and accounts receivable of ¥3,500 million and income taxes paid of ¥4,003 million.

Net cash used in investing activities was ¥28,806 million, down ¥18.6% from the previous fiscal year. The major cash outflow was purchases of property, plant and equipment of ¥31,553 million.

Net cash used in financing activities was ¥4,342 million, up 111.8% from the previous fiscal year. The principal cash inflow was net increase in short-term borrowings of ¥4,608 million. The major cash outflows were repayments of long-term borrowings of ¥6,216 million and payments of cash dividends of ¥2,351 million.

As a result, cash and cash equivalents as of the end of the fiscal year ended March 31, 2017 amounted to ¥36,094 million, a decrease of ¥3,849 million from the end of the previous fiscal year.

Financial Policy

The TAIYO YUDEN Group conducts centralized management of Group funds to enhance the efficiency of funding operations. The Group collects surplus funds from affiliated companies and allocates funds to affiliated companies as necessary. External sources are utilized when additional funds are needed. The Cash Management System (CMS) is utilized to minimize interest-bearing debt from external sources.

Financing from external sources at the March 31, 2017, consisted of ¥16,463 million in short-term borrowings, ¥11,074 million in current portion of long-term borrowings, ¥20,053 million in convertible bonds with stock acquisition rights, and ¥4,056 million in long-term borrowings. In principle, borrowings are secured within Japan at fixed interest rates. To ensure financial stability, TAIYO YUDEN has also established a commitment line of ¥10,000 million effective for three years. The Company has not utilized the commitment line as of the March 31, 2017, fiscal year-end.

The Group is capable of generating cash flow through its sound financial position and operating activities. Management believes it is capable of procuring the operating capital and funds for capital investment for activities that may be required in the future to maintain the Group's growth.

Overview of Capital Investment

In the fiscal year ended March 31, 2017, the TAIYO YUDEN Group implemented a total of ¥31,553 million in capital investment mainly to increase production capacity for capacitors, ferrite and applied products, and FBAR/SAW devices for mobile communications as well as for improving productivity.