Financial Review

Outline of Business Performance

In the fiscal year ended March 31, 2019, the business environment surrounding the TAIYO YUDEN Group maintained a moderate recovery for the global economy as a whole. Looking ahead, it will be necessary to monitor the impact of the trade situation on the global economy, changes in the Chinese economy, and exchange rate trends, among other factors.

The Group aimed to achieve its medium-term targets and management vision by capturing focus markets, such as automotive, IT infrastructure/industrial equipment, healthcare, the environment and energy, centered on the solutions business that leverages the Group's core technologies, in addition to cutting-edge products and high reliability products that draw on the Group's strengths of research and development and production technology.

Moreover, the Group is strengthening its manufacturing capabilities in order to build a structure that can enhance profitability and meet the future increase 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.

Demand for large, high voltage resistant, high reliability components has increased in the automotive market, where use of electric vehicles and electronic components is advancing. Demand for use in the IT infrastructure market, including base station communication devices and data centers, also increased, with further enhancements in functionality accompanying the upgrading of communication systems and advances in IoT. Demand for cutting-edge products for communication equipment such as smartphones increased as advances in functionality and performance continued. As a result, sales of capacitors expanded significantly, leading to growth in sales and profit.

Accounting for each of these factors, in the fiscal year ended March 31, 2019, consolidated net sales increased 12.4% compared with the previous fiscal year, to ¥274,349 million.

Meanwhile, the average foreign currency exchange rate for the fiscal year ended March 31, 2019, was US$1: ¥110.49. This is a depreciation of ¥0.95 compared with the average value of the yen in the previous fiscal year of US$1: ¥111.44.

Selling, General and Administrative Expenses

In the fiscal year ended March 31, 2019, selling, general and administrative (SG&A) expenses increased ¥5,296 million compared with the previous fiscal year, to ¥47,026 million.

In addition to the upswing in R&D expenses, the main factors for the increase were higher tariffs and commission fees in line with the growth in sales. Despite this increase in SG&A expenses, operating income jumped 74.3% year on year, to ¥35,237 million.

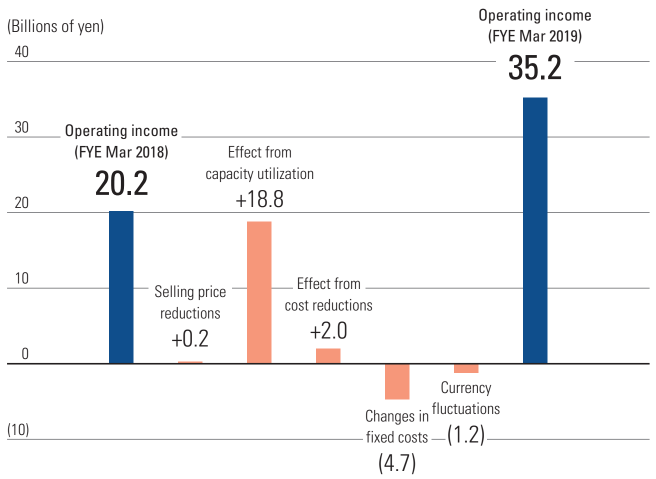
Non-operating income (Expenses)

Non-operating income in the fiscal year ended March 31, 2019, was ¥1,496 million, a decrease of ¥1,303 million from the previous fiscal year due to a decrease in subsidy income. On the other hand, non-operating expenses decreased by ¥85 million from the previous fiscal year to ¥2,382 million yen. As a result, ordinary income increased by 67.1% to ¥34,351 million.

Extraordinary Gains (Losses)

Extraordinary gains in the fiscal year ended March 31, 2019, amounted to ¥1,825 million, an increase of ¥1,804 million from the previous fiscal year, due mainly to gains on sales of investment securities. Extraordinary losses increased ¥7,216 million year on year to ¥8,066 million due to an increase in loss on disposal and sales of property plant and equipment, increase in impairment loss, and the recording of business structure improvement expenses. As a result, net income attributable to owners of parent company increased 44.8% year on year, to ¥23,687 million.

■ Factors behind Operating Income in FYE March 2019



*Excluding ELNA CO., LTD.

Financial Position

Assets

Total assets as of the end of the fiscal year ended March 31, 2019, stood at ¥328,861 million, up ¥41,691 million from the end of the previous fiscal year. Current assets increased ¥21,531 million. This increase in current assets was mainly due to the increase in cash and deposits of ¥6,730 million, trade notes and accounts receivable of ¥5,811 million and work in process of ¥4,789 million. Fixed assets increased ¥20,159 million owing to the upswing in property, plant and equipment of ¥15,071 million and goodwill of ¥5,837 million.

Liabilities

Total liabilities stood at ¥122,907 million as of the end of the fiscal year ended March 31, 2019. This was ¥5,855 million higher than the end of the previous fiscal year. While long-term borrowings and income taxes payable climbed ¥19,532 million and ¥3,400 million, respectively, convertible bonds with stock acquisition rights declined ¥20,039 million.

Net Assets

Net assets stood at ¥205,953 million as of March 31, 2019, up ¥35,835 million compared with the end of the previous fiscal year. Principal movements in net assets included an increase of ¥21,233 million on retained earnings, an increase of ¥10,017 million on common stock, and an increase of ¥8,386 million on capital surplus.

Status of Cash Flows

Net cash provided by operating activities in the fiscal year ended March 31, 2019, came to ¥42,967 million, up 26.6% compared with the previous fiscal year. The principal cash inflows were income before income taxes of ¥28,110 million as well as depreciation and amortization of ¥26,547 million. The major cash outflows included an increase in inventories of ¥6,263 million, and decrease in trade payables of ¥4,062 million.

Net cash used in investing activities amounted to ¥33,581 million, up 24.8% compared with the previous fiscal year. The major cash outflow was purchases of property, plant and equipment of ¥42,562 million.

Net cash used in financing activities was ¥1,603 million compared with net cash provided by financing activities of ¥953 million in the previous fiscal year. The principal cash inflows were proceeds from long-term borrowings of ¥22,024 million and net decrease in short-term borrowings of ¥12,673 million. The major cash outflows included repayments of long-term borrowings of ¥5,194 million, purchases of treasury stock of ¥3,001 million, and payments of cash dividends of ¥2,449 million.

Accounting for each of these activities, cash and cash equivalents stood at ¥51,654 million as of the end of the fiscal year ended March 31, 2019, an increase of ¥7,816 million compared with the end of the previous fiscal year.

Financing from external sources as of March 31, 2019, consisted of ¥23,152 million in short-term borrowings, ¥2,477 million in current portion of long-term borrowings, and ¥28,415 million in long-term borrowings. In principle, borrowings are procured within Japan at fixed interest rates. Moreover, and 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, 2018 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, 2019, the TAIYO YUDEN Group undertook a total of ¥42,562 million in capital investment, mainly to increase production capacity for multilayer ceramic capacitors, which continue to be in strong demand, including for automobiles, IT infrastructure, and smartphones.