

## Message from the President

### Katsuya Sase

Representative Director,  
President and CEO

# *We will move forward to achieve the targets set out in the medium-term management plan 2025 with the primary objective to achieve sustainable growth*

## On My Appointment as President and Chief Executive Officer

I was appointed President and Chief Executive Officer in June 2023, succeeding Mr. Tosaka, who served for approximately seven and a half years. To be honest, in terms of timing, I am taking office at a difficult time, given that our financial results, which had been rising steadily since FY2017, have plateaued. TAIYO YUDEN is in the electronic components industry, which has been subject to major economic fluctuations throughout its history. We have weathered many ups and downs in the past. I have not changed my view that the market will grow in the medium to long term due to the digitalization of society. As has always been our nature and this time as well, we will reflect on what we need to do to overcome the situation and tackle the challenges before us with a sense of urgency.

Starting with the audio cassette tapes that TAIYO YUDEN was previously known for, I have been involved in the development of various products, including inductors and our current flagship product, multilayer ceramic capacitors (MLCCs). By gaining experience across our business segments, I have been able to deepen my understanding of TAIYO YUDEN's technological capabilities, breadth, and complexity. Starting in 2012 I served as the division manager of the Company's capacitor business, and for the last three years I was responsible for the Company's financial strategy as Chief of Management Planning Headquarters. Now, as President and Chief Executive Officer, I plan to continue to utilize my experiences in both business and finance to strive for the sustainable growth of TAIYO YUDEN.

To move forward to achieve the targets set out in the medium-term management plan 2025, I will use my personal management style, which is to set clear goals and quantitative targets and proceed in a balanced manner to do what needs to be done to achieve these goals and targets.

## Summary of Year 2 of the Medium-term Management Plan 2025

As we review the electronic components market in FY2022, we need to understand the rapid expansion in demand that started in FY2020, which has ended. The current market environment deteriorated significantly, with demand decreasing due to lower production of smartphones and PCs combined with inventory adjustments. The utilization rate for MLCCs, one of TAIYO YUDEN's main products, has declined. This has caused a significant negative impact on our financial results. As a result, in FY2022, the second year of the medium-term management plan 2025, net sales fell to ¥319.5 billion (down 8.6% from the previous fiscal year) and operating profit fell to ¥31.9 billion (down 53.1% from the previous fiscal year). I expect our financial results to bottom out in the fourth quarter of FY2022 and then start to rise in FY2023 driven by the end of the inventory adjustments for Chinese smartphones. An addition factor for positive growth is sales in the automotive sector. The automotive sector is positioned as a focus market for TAIYO YUDEN and continues to grow.

With regard to our "smart.E" productivity improvement activities, I feel that we are now in a position to identify issues and conceptualize ways to continue our efforts to achieve even higher levels of improvement. Going forward, we will continue to invest the necessary resources in key areas to increase the effectiveness of these efforts.

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From a global perspective as it relates to the impact of international conflicts, at this time, there have been no major impacts that directly impede TAIYO YUDEN's business operations, but looking to the future, we intend to strengthen our ability to deal with this risk. We may not be able to foresee what will happen. The key to dealing with unforeseen risk is to collect, integrate, and analyze timely information on what is happening at various sites, while paying close attention to the likelihood of any risks we may see. In a rapidly changing environment, we need to further shorten the time lag between information collection and implementation of countermeasures so that, in the event of an emergency, we can respond swiftly, minimize the impact, and continue uninterrupted operations. To that end, I will work to strengthen our business continuity planning and operational structure at TAIYO YUDEN.

We are now in the second year of the medium-term management plan 2025, and are in a difficult situation. I expect substandard financial results in the third year as well due to the heavy cost burden associated with upfront investments. We anticipate increased demand for our products in FY2024 and beyond, we will continue our activities aimed at achieving the targets set out in the medium-term management plan 2025.



## Business Strategies

### Pioneering Focus Markets

TAIYO YUDEN has identified automobiles and IT infrastructure/industrial equipment as focus markets where future growth is expected. In FY2022, the combined sales composition ratio of these two focus markets reached 52%. Although we are making steady progress in developing these focus markets, I think another reason for this high composition ratio is the sluggish sales of communication equipment such as smartphones and information equipment such as PCs.

For market trends in the main products in our focus markets as it relates to MLCCs for automotive use, over the past ten years we have expanded into ADAS and other body safety applications and powertrain applications and increased our market share from virtually zero to 10%. Through this expansion, we are now in a position to conduct a wide range of transactions with major Tier 1 manufacturers in various regions that are central to automobile production including Europe, the United States, China, South Korea, and Japan. Looking ahead, I believe that TAIYO YUDEN's automobile initiatives are poised to enter the next phase of significant growth, given the fact that body safety applications are expected to see further growth due to the advancement of semiconductors and the fact that the shift to xEVs is accelerating demand for powertrain applications. In particular, we will increase our market share by expanding our lineup and increasing our production capacity in the high-voltage-resistant products that are required for powertrain applications. In addition to MLCCs, we also aim to expand sales of inductors, communication devices, and conductive polymer hybrid aluminum electrolytic capacitors for automotive applications.

Meanwhile, looking at the market for IT infrastructure/industrial equipment, the volume of communication data will continue to increase along with the rapid progress of digitalization in society. This will directly affect demand for electronic components such as MLCCs, which is expected to grow rapidly as data centers expand, more AI servers are equipped with semiconductors with advanced computing power, and power supply efficiency improves to reduce power consumption. TAIYO YUDEN will continue to develop products and expand our capabilities to meet these needs.

Up to now, the goal has been to have these focus markets, where growth is expected, to account for 50% of TAIYO YUDEN's total sales. We expended the necessary investment and effort to make this happen. Although we do not plan to set any new targets going forward, I expect that these focus markets will continue to account for a large percentage of TAIYO YUDEN's total sales in line with our policy of increasing sales of the high-reliability and high-end products where TAIYO YUDEN's strengths can be fully mobilized.

### Product Information

TAIYO YUDEN has established four product categories: Capacitors, Inductors, Integrated Modules & Devices, and Others, each with its own business strategy.

In the Capacitors segment, as previously discussed, our plan is to develop high value-added MLCC products centered on our focus markets, i.e. automobiles and IT infrastructure/industrial equipment. Compared to the initial medium-term plan, demand for smartphones has been sluggish. We have revised downward our demand forecast for FY2025. Contrary to this, demand for high-reliability products and large-sized products is expected to grow at a faster pace than originally planned. Looking at the product mix, the increase in the ratio of these products has led to an increase in the average unit price, therefore total sum of demand has not changed significantly. We plan to further accelerate investments related to large-sized products, such as those for automobiles, to meet future increases in demand.

Until a few years ago, TAIYO YUDEN's business portfolio had been dominated by MLCCs. Today, however, sales and profits of inductors are increasing, which I expect them to become our second core business after MLCCs. Inductors are used in a wide range of fields, including communication equipment and automobiles, but we are particularly focused on multilayer metal inductors, which are produced exclusively by TAIYO YUDEN. At the same time, we are withdrawing from unprofitable products and improving our product mix to better our margins.

With regard to Integrated Modules & Devices, the majority of our products are communication devices for smartphones and automobiles. In this area, we will focus on marketing activities utilizing new technologies and improve profitability by pursuing high value-added and expanding sales channels for modules.

In the Others product category, there is increasing demand for conductive polymer hybrid aluminum electrolytic capacitors for automotive applications. Demand is expected to increase to approximately 5.1 times comparing the FY2020 level v. FY2030. In response to strong inquiries, we are ramping up production capacity and taking other measures to increase efficiencies and utilization.

## Environmental and Social Initiatives

### Response to Climate Change

TAIYO YUDEN is a signatory to the United Nations Global Compact (UNGC) and strongly supports its Ten Principles in the four areas of human rights, labor, environment, and anti-corruption. We are stepping up our efforts in the area of the environment, and have set reduction indicators for GHG emissions, waste generation, and water use in the medium-term management plan 2025.

In FY2022, we were able to reduce GHG emissions by 18% compared to FY2020 through initiatives led by the Environment Promotion Committee. For the future, we will continue to make the necessary investments to achieve our goals by further reducing absolute emissions even as production activities increase to meet growing demand. Specifically, about 10% of our capital investment is allocated to environmental measures and digital transformation (DX). For example, our Yawatabara Plant Materials Building, which was

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completed in March 2023, has acquired ZEB Ready certification as a building that has achieved significant energy savings through the introduction of state-of-the-art facilities and energy conservation measures. Moreover, in FY2022, in recognition of our comprehensive efforts to date, we were included on the Climate Change A List (the top level) by the Carbon Disclosure Project (CDP), an international environmental non-profit organization that selects companies that excel in climate change measures, strategies, and information disclosure. Going forward, we will continue to promote initiatives centered on energy efficiency & conservation, energy creation, and the utilization of renewable energy, while also staying mindful of improving our reputation with external assessment organizations.

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### Human Resources Strategy

TAIYO YUDEN has reverentially passed down the management philosophy set forth by its founder, and one of its principles is "employee well-being." TAIYO YUDEN recognizes that employees are the source of its value creation, and as such the Company is totally committed to its human resources.

In the medium-term management plan 2025, we set a target of 10% or more female managers by FY2030, and we are continuing to work to achieve this goal. Specifically, we are continuing to increase the ratio of new graduate women hired to 30% or higher, creating a system for post-employment development and systematic promotion, and conducting training to foster an organizational culture that promotes diversity. These initiatives are gradually producing results, and the female manager ratio has increased from 2.4% as of April 2021 to 4.2% as of April 2023.

We have also set a target work engagement score of 2.5. Work engagement is an indicator of an employee's state of mind, and measures the extent to which they feel a sense of pride and fulfillment in their work, being in good health. Work engagement for FY2022 is 2.28, which is below the target, but through quantitative and qualitative analysis of employee questionnaires, we are identifying factors that inhibit the increase in work engagement and are taking measures to address them.

We are also working to improve the skills of our employees and have continually expanding our educational programs. We are increasing opportunities for training and education to improve the basic skills of all employees, conducting selective leadership training, and promoting initiatives such as the development of education that identifies and analyzes the strengths and weaknesses of managers and identifies points that need to be strengthened.

In addition, we continue to work on creating a safe workplace and promoting health-oriented management, with the aim of creating an environment where each and every employee can demonstrate their full potential.

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The medium-term management plan 2025 aims to make a leap forward by enhancing corporate value through both economic and social values, based on the medium- and long-term business environment. Although there have been changes in the short-term business environment, if you look at the potential of our main products and the direction of the market, I don't think there will be any major changes in our future growth potential.

As the head of TAIYO YUDEN, my most important goal is to achieve the targets set out in the medium-term management plan 2025. I intend to promote the necessary measures to achieve this, and at the same time return the profits obtained through our business activities to our shareholders. I humbly request the continued support of all our stakeholders including shareholders, customers, employees, and local communities.



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