

Fiscal 2023 Results Highlights

Tetsuji Yamanishi
Executive Vice President

Hello, I am Tetsuji Yamanishi, Executive Vice President of TDK. Thank you for taking the time to attend TDK's full year performance briefing for the fiscal year ended March 2023. I will be presenting an overview of our consolidated results.

Fiscal 2023 key points

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- Amid sluggish demand in the ICT market, both net sales and operating profit reached new record highs on the back of automobile- and industrial equipment-related demand*.

Net sales (JPY bn)

2,180.8

[Up 14.7% YoY]

Operating profit (JPY bn)

168.8

[Up 1.2% YoY]

- While production of smartphones, PCs, and tablets was significantly below the initial forecast, sales of rechargeable batteries and sensors for new models expanded.
- Sales of HDD heads and HDD suspension assemblies decreased due to a rapid decline in the HDD market.
- Component demand remained brisk on the back of the increasing number of components installed per vehicle as a result of the spread of xEVs and ADAS. Sales of passive components and sensors increased.
- Sales of medium capacity rechargeable batteries and power supplies for industrial equipment increased as demand related to renewable energy and energy-saving equipment.
- Restructuring costs were recorded for 3Q and 4Q as a result of the deteriorating operating environment.

*Operating profit is compared on the basis excluding a gain on sale of business recorded in fiscal 2017.

First, let me explain the key points concerning the earnings for the fiscal year ended March 2023. While socio-economic and production activities despite the resurgence of COVID-19 in some areas remained on a recovery trend, the global economy slowed due to the continued inflation associated with the protraction of the war in Ukraine, as well as policy rate hikes in the United States and Europe, among other factors. Since the beginning of the fourth quarter, financial instability triggered by the collapse of U.S. banks and concerns over the management failure of a European financial institution have further intensified uncertainty surrounding the global economy. In addition, the gap in interest rates between Japan and other countries significantly affected the foreign exchange market and the yen depreciated sharply against other currencies.

Under such an operating environment, in the electronics market, which has a large bearing on the consolidated performance of TDK, demand remained sluggish in the ICT market in particular, while EX demand related to xEVs and industrial equipment remained robust. As a result of steadily incorporating this demand, net sales surged 14.7% year on year and operating profit increased 1.2% year on year, both setting new record highs. In the ICT market, while demand for PCs and tablets, which had been brisk amid the COVID-19 pandemic, fell significantly below initial forecasts, sales of rechargeable batteries and sensors for new smartphone models expanded. On the other hand, as investment in data centers slowed rapidly, sales of HDD heads and HDD suspension assemblies decreased considerably.

In the automotive market, there were signs of a moderate recovery on the whole, despite ongoing constraints in supply chains such as the shortage of semiconductors. In particular, sales of passive components and sensors expanded on the back of solid component demand reflecting the increasing number of components installed per vehicle as a result of an increase in the ratio of xEVs and the spread of ADAS.

Sales of medium capacity rechargeable batteries and power supplies for industrial equipment increased as demand related to renewable energy, energy-saving equipment and residential energy storage systems (RESS) continued to expand due to concerns over global energy supply and the impact of soaring energy prices reflecting growing geopolitical risks.

At the time of the announcement of our earnings for the first nine months of the fiscal year ended March 2023, we explained that TDK was expected to post about 20.0 billion yen as restructuring costs in the fourth quarter given increasing downward pressure on final demand. However, as a result of the review of future changes in demand and projections mainly for businesses facing challenges in improving profitability, TDK posted about 46.7 billion yen in impairment losses and restructuring costs for the fourth quarter, which was partly offset by 12.0 billion yen in income from decrease in retirement benefit liabilities due to extension of the retirement age. As a result, TDK recorded one-time expenses of 34.7 billion yen for the fourth quarter.

Next, I would like to present an overview of our results.

Fiscal 2023 results

- Net sales and Operating profit increased year on year.
- One-time expenses: -47.7 bn JPY in restructuring costs, +12.0 bn JPY in related retirement benefits

(JPY bn)	FY2022	FY2023	Change	
			JPY bn	%
Net sales	1,902.1	2,180.8	+278.7	+14.7%
Operating profit	166.8	168.8	+2.1	+1.2%
Operating profit margin	8.8%	7.7%	(1.1)pts	-
Profit before tax	172.5	167.2	(5.3)	(3.1)%
Net profit	131.3	114.2	(17.1)	(13.0)%
Earnings per share (JPY)	346.44	301.19	-	-
USD (JPY)	112.33	135.46	20.6% JPY depreciation	
EUR (JPY)	130.53	140.89	7.9% JPY depreciation	

Ex-rate impact to net sales, operating profit (OP) (JPY bn)

Net sales	Approx. +292.2
OP	Approx. +68.9

Forex sensitivity (impact by one JPY change)

USD (JPY bn)

Net sales	11.0
OP	2.0

EUR (JPY bn)

Net sales	3.0
OP	0.6

(Note) TDK has voluntarily adopted International Financial Reporting Standards (IFRS) on its consolidated financial statements in the Securities Reports from fiscal 2022 in place of the U.S. GAAP. The figures for the previous fiscal year shown in this document are also presented in accordance with IFRS.

Next, I would like to present an overview of our results.

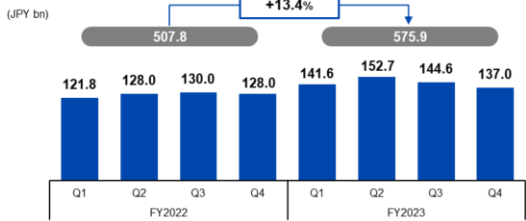
There was an increase of about 292.2 billion yen in net sales and an increase of about 68.9 billion yen in operating profit due to exchange rate fluctuations against the U.S. dollar and other currencies. Including this impact, net sales were 2,180.8 billion yen, an increase of 278.7 billion yen, or 14.7%, year on year. Operating profit was 168.8 billion yen, an increase of 2.1 billion yen, or 1.2%, year on year. Profit before tax was 167.2 billion yen, and net profit was 114.2 billion yen. Earnings per share were 301.19 yen. One-time expenses of 35.7 billion yen were included in operating profit. As most of the losses pertaining to one-time expenses are not effective in reducing tax costs, net profit decreased year on year.

With regard to the exchange rate sensitivity of operating profit, we maintain our estimate that a change of 1 yen against the U.S. dollar will affect operating profit by about 2.0 billion yen a year, while a 1 yen change against the euro will have an impact of about 0.6 billion yen a year.

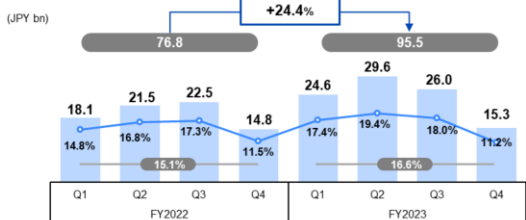
Passive Components segment

- Both net sales and profit significantly increased year on year as sales to the automotive market remained brisk, especially those related to xEVs.

Net sales



Operating profit, OP margin



Ceramic capacitors	<ul style="list-style-type: none">Sales and profit increased year on year.Sales increased to the automotive market and distributors.
Aluminum electrolytic capacitors and film capacitors	<ul style="list-style-type: none">Sales and profit increased year on year.Sales increased to the industrial equipment and the automotive markets.
Inductive devices	<ul style="list-style-type: none">Sales and profit increased year on year.Sales increased to the automotive and the industrial equipment markets.
High-frequency components	<ul style="list-style-type: none">Sales and profit decreased year on year.Sales decreased to the ICT market.
Piezoelectric material products and circuit protection components	<ul style="list-style-type: none">Sales increased while profit decreased year on year.Sales increased to the automotive and the industrial equipment markets.

Next, I would like to explain our business segment performance for the full year.

Net sales in the Passive Components segment were 575.9 billion yen, an increase of 13.4% year on year. Operating profit was 95.5 billion yen, an increase of 24.4% year on year. Both net sales and profit significantly increased year on year as sales to the automotive market remained brisk, especially those related to xEVs.

Sales and profit of ceramic capacitors, aluminum electrolytic capacitors and film capacitors, and inductive devices, which have a high ratio of sales to the automotive and industrial equipment markets, increased year on year.

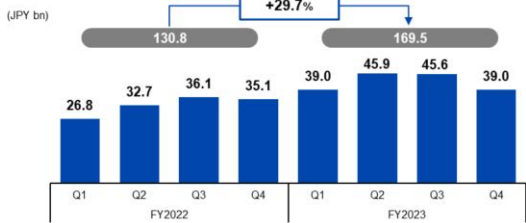
On the other hand, as a result of a decline in demand related to smartphones, sales and profit of high-frequency components, which have a high ratio of sales for smartphone applications, decreased year on year. Restructuring costs of about 0.3 billion yen were recorded for the adjustment of production capacity in light of the future demand outlook.

While sales of piezoelectric material products and circuit protection components increased year on year, profit decreased year on year reflecting a decline in sales volume.

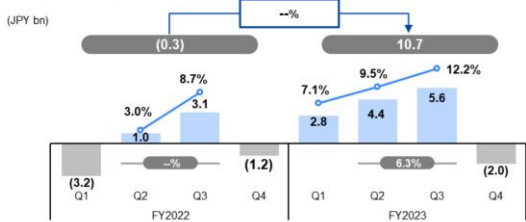
Sensor Application Products segment

- Sales and profit increased year on year due to brisk sales mainly to the ICT market and a significant improvement in profitability.

Net sales



Operating profit, OP margin



Temperature and pressure sensors

- Sales increased to the automotive market and for home appliances.
- profit decreased due to the recording of restructuring costs.

Magnetic sensors

- Sales and profit increased year on year.
- Sales of Hall sensors to the automobile market expanded.
- Sales of TMR sensors to the ICT market increased considerably.

MEMS sensors

- Profit improved significantly as sales for game machine, wearable and automobile applications expanded, despite a decline in sales for smartphone applications.

Net sales in the Sensor Application Products segment amounted to 169.5 billion yen, a significant increase of 29.7% on a year-on-year basis. Operating profit was 10.7 billion yen, a year-on-year increase of 11.0 billion yen, on the back of a significant improvement in profitability reflecting increased sales, despite the recording of one-time expenses of 2.5 billion yen.

Sales of temperature and pressure sensors decreased year on year reflecting a decline in the sales volume to the automotive market and for home appliances as well as the recording of restructuring costs of 1.3 billion yen for the consolidation of business bases, among others.

In magnetic sensors, sales of Hall sensors to the automotive market and for new smartphone models expanded. Sales of TMR sensors expanded on the back of their adoption for smartphone applications on top of robust sales to the automotive market. Sales and profit of magnetic sensors on the whole increased considerably on a year-on-year basis, resulting in improved profitability.

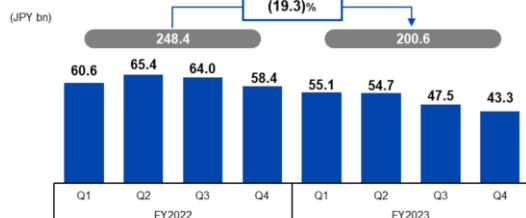
Sales of MEMS sensors increased year on year on the back of a steady increase in sales for automobile, wearable and game machine applications, despite a drop in sales to the ICT market due to sluggish demand. The profitability of MEMS sensors on the whole has been improving, although one-time expenses of 1.2 billion yen were recorded for the disposal of inventories among other factors.

Magnetic Application Products segment

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- Sales and profit decreased significantly on a year-on-year basis due to the impact of the rapid deterioration in the HDD market and the recording of restructuring costs.

Net sales



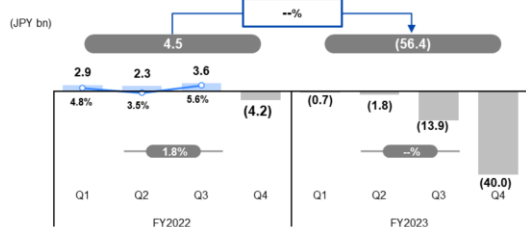
HDD heads and HDD suspension assemblies

- Sales and profit decreased significantly on a year-on-year basis as a result of a rapid decline in HDD demand.

Magnets

- Sales increased year on year, reflecting a rise in sales to the automotive market.
- Slower productivity improvement resulted in lag in profitability enhancement.

Operating profit, OP margin



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In the Magnetic Application Products segment, net sales decreased 19.3% year on year to 200.6 billion yen, and a significant operating loss of 56.4 billion yen, which included one-time expenses of 27.9 billion yen, was posted.

In HDD heads and HDD suspension assemblies, HDD demand for PCs declined. In terms of demand related to nearline HDD heads, investment in data centers decreased due to the effect of economic slowdown among other factors. As a result of HDD inventory adjustment, total demand for HDDs decreased by slightly less than 40% from the previous fiscal year.

Consequently, the sales volume of HDD heads and HDD suspension assemblies decreased substantially from the previous fiscal year, resulting in a significant year-on-year decline in sales and the posting of a loss.

Based on the assumption that demand for HDDs will take some time to recover, one-time expenses related to impairment loss and restructuring costs of 25.7 billion yen were posted on a full-year basis, including 1.0 billion yen recorded for the third quarter, for the HDD heads-related businesses as a whole including HDD heads, HDD suspension assemblies, and HDD suspension application products.

While sales of magnets increased year on year reflecting a rise in sales related to xEVs, profit decreased year on year due to slower productivity improvement. An impairment loss of 2.2 billion yen was recorded owing to the lag in profitability enhancement.

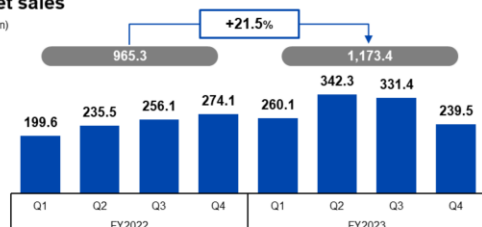
Energy Application Products segment

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- In Energy Devices, soaring material prices and the deteriorating demand environment were countered by cost pass-through measures and rationalization measures.
- Segment sales and profit increased year on year as the market related to power supplies for industrial equipment remained robust.

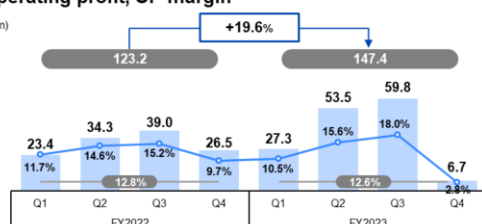
Net sales

(JPY bn)



Operating profit, OP margin

(JPY bn)



Energy devices (Rechargeable batteries)

- Sales and profit increased year on year.
- Profit increased year on year on the back of cost reduction and other measures, despite a decline in sales volume related to mobile devices.
- Sales of medium capacity rechargeable batteries for residential energy storage systems and other applications expanded significantly.

Power supplies

- Sales and profit of power supplies for industrial equipment significantly increased year on year.
- Profit decreased significantly due to the recording of one-time expenses related to EV power supplies.

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In the Energy Application Products segment, net sales increased 21.5% year on year to 1,173.4 billion yen and operating profit rose 19.6% year on year to 147.4 billion yen, despite the recording of one-time expenses of 17.0 billion yen.

Sales of rechargeable batteries increased year on year. While the sales volume for mobile applications, such as Chinese smartphones, tablets, and notebook PCs, decreased, sales related to new smartphone models increased. In addition, expansion of sales of medium capacity batteries, mainly for RESS, more than offset the decline in sales volume for mobile applications. Operating profit increased year on year as a result of the improvement in the product mix as well as our efforts to reduce overall costs including SG&A expenses and to increase the profitability of medium capacity batteries, despite the negative impact on profit from the decline in sales volume of small capacity batteries. Meanwhile, a loss on retirement of fixed assets of 5.2 billion yen was recorded in relation to the equipment dedicated to old smartphone models.

In power supplies for industrial equipment, demand related to industrial equipment, such as semiconductor manufacturing equipment, as well as medical equipment applications remained robust, resulting in year-on-year increases in both sales and profit. Profitability also improved considerably. While sales of EV power supplies have grown steadily, an impairment loss of 11.8 billion yen was posted due to slower cost improvement and a decline in order prospects reflecting changing demand trends.

Quarterly results by segment

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		FY2022	FY2023		YoY (C)-(A)		QoQ (C)-(B)	
(JPY bn)		Q4(A)	Q3(B)	Q4(C)	JPY bn	%	JPY bn	%
Net sales	Capacitors	50.4	61.5	57.8	+7.3	+14.5%	(3.7)	(6.1)%
	Inductive Devices	45.8	50.1	46.3	+0.5	+1.0%	(3.8)	(7.6)%
	Other Passive Components	31.8	33.1	33.0	+1.2	+3.7%	(0.1)	(0.4)%
	Passive Components	128.0	144.6	137.0	+9.0	+7.0%	(7.7)	(5.3)%
	Sensor Application Products	35.1	45.6	39.0	+3.9	+11.0%	(6.7)	(14.6)%
	Magnetic Application Products	58.4	47.5	43.3	(15.2)	(25.9)%	(4.2)	(8.8)%
	Energy Application Products	274.1	331.4	239.5	(34.6)	(12.6)%	(91.9)	(27.7)%
	Other	12.6	17.8	13.1	+0.5	+3.8%	(4.7)	(26.5)%
	Total	508.3	587.0	471.9	(36.4)	(7.2)%	(115.1)	(19.6)%
Operating profit	Passive Components	14.8	26.0	15.3	+0.6	+4.0%	(10.7)	(41.0)%
	Sensor Application Products	(1.2)	5.6	(2.0)	(0.8)	-	(7.5)	-
	Magnetic Application Products	(4.2)	(13.9)	(40.0)	(35.8)	-	(26.1)	-
	Energy Application Products	26.5	59.8	6.7	(19.8)	(74.6)%	(53.1)	(88.7)%
	Other	(0.1)	0.9	(1.5)	(1.4)	-	(2.4)	-
	Subtotal	35.7	78.3	(21.4)	(57.1)	-	(99.7)	-
	Adjustment	(10.3)	(10.0)	1.5	+11.8	-	+11.5	-
	Total	25.5	68.4	(19.9)	(45.3)	-	(88.2)	-
	Operating profit margin	5.0%	11.6%	(4.2)%	(9.2)pts	-	(15.8)pts	-
	USD (JPY)	116.14	141.75	132.40				
	EUR (JPY)	130.35	144.26	141.95				

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Now, I will explain some of the factors behind the changes in segment net sales and operating profit from the third quarter to the fourth quarter of the fiscal year ended March 2023.

First, in the Passive Components segment, net sales decreased by 7.7 billion yen, or 5.3%, from the third quarter to the fourth quarter, and operating profit dropped by 10.7 billion yen, or 41.0%, from the third quarter to the fourth quarter. Segment sales decreased on the whole from the third quarter as a result of a decline in sales to the industrial equipment market, for home appliance applications, and to distributors, on top of the decrease in sales to the ICT market, mainly for smartphone applications. While profit of piezoelectric material products and circuit protection components increased from the third quarter thanks to increased sales, both sales and profit of capacitors and inductive devices decreased from the third quarter due partly to the effect of a decline in the sales volume and seasonal factors in the fourth quarter.

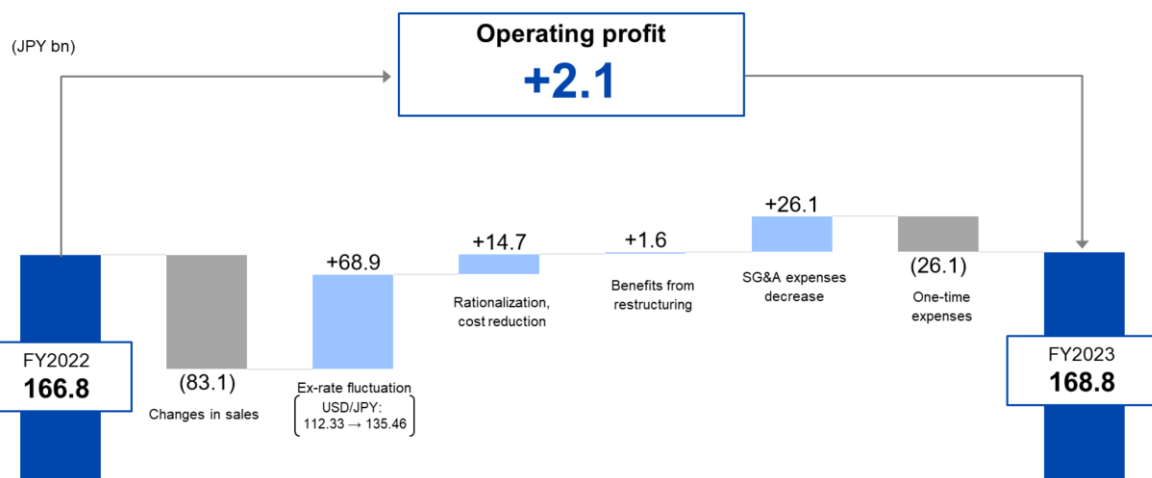
In the Sensor Application Products segment, net sales decreased by 6.7 billion yen, or 14.6%, from the third quarter, and operating profit dropped by 7.5 billion yen from the third quarter. However, when excluding the effect of one-time expenses of 2.5 billion yen recorded during the fourth quarter, the segment maintained profitability in the fourth quarter. Sales of temperature and pressure sensors remained virtually flat from the third quarter, and operating profit also remained virtually unchanged from the third quarter, excluding one-time expenses of 1.3 billion yen. In magnetic sensors, sales and profit of both TMR sensors and Hall sensors decreased from the third quarter due to seasonal factors in sales to TDK's major customers among other factors. In MEMS Sensors, while sales of motion sensors to the automotive market remained robust, sales for smartphone applications in China dropped and sales of microphones saw a decline. As a result, sales decreased from the third quarter, resulting in a quarter-on-quarter decline in profit, including the effect of one-time expenses of 1.2 billion yen.

In the Magnetic Application Products segment, net sales decreased by 4.2 billion yen, or 8.8%, from the third quarter, and operating profit decreased by 26.1 billion yen from the third quarter, posting a greater loss. Net sales dropped from the third quarter as the sales volume of HDD heads further decreased by 7% from the third quarter due mainly to a further decline in total demand for nearline HDD heads. There has been a significant impact from a loss from operating activities. The segment posted a loss reflecting the significant decline in profit including the effect of one-time expenses. Both sales and profit of magnets decreased from the third quarter due to slower productivity improvement, posting a greater loss reflecting the recording of one-time expenses, among other factors.

In the Energy Application Products segment, net sales decreased by 91.9 billion yen, or 27.7%, from the third quarter, and operating profit declined sharply by 53.1 billion yen from the third quarter. The sales volume of rechargeable batteries for the ICT market decreased due partly to seasonal factors, resulting in a decline in sales from the third quarter. Profit also decreased from the third quarter, including the effect of one-time expenses of 5.2 billion yen. While both sales and profit of power supplies for industrial equipment increased from the third quarter, sales and profit of EV power supplies decreased from the third quarter, posting a significant loss, including the effect of one-time expenses of 11.8 billion yen.

Analysis of change in operating profit

- Operating profit increased year on year despite the recording of restructuring costs amounting to 47.7 bn JPY in response to the rapid changes in the market environment.



Next is an analysis of changes in operating profit. Let's take a look at the main factors behind the 2.1 billion yen increase in operating profit year on year. First, operating profit decreased sharply by 83.1 billion yen due to changes in sales, reflecting a decline in the sales volume of HDD heads, HDD suspension assemblies and rechargeable batteries which were significantly affected by a drop in demand from the ICT market.

On the other hand, operating profit was boosted by about 28.2 billion yen on an actual basis from the previous fiscal year as a result of the promotion of rationalization and cost reduction efforts mainly for rechargeable batteries and passive components, as well as the benefits from restructuring during the previous fiscal year and streamlining of SG&A expenses, in addition to the positive effect of the yen's depreciation amounting to 68.9 billion yen, which offset the negative impact on profit to a certain extent.

Meanwhile, in light of the changing demand environment surrounding HDD Heads, restructuring was carried out during the fourth quarter as well as the third quarter. One-time expenses amounted to 35.7 billion yen on a full-year basis, an increase of 26.1 billion yen from the previous fiscal year.

Cautionary statements with respect to forward-looking statements

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This material contains forward-looking statements, including projections, plans, policies, management strategies, targets, schedules, understandings, and evaluations about TDK, or its group companies (TDK Group). These forward-looking statements are based on the current forecasts, estimates, assumptions, plans, beliefs, and evaluations of the TDK Group in light of the information currently available to it, and contain known and unknown risks, uncertainties, and other factors. The TDK Group therefore wishes to caution readers that, being subject to risks, uncertainties, and other factors, the TDK Group's actual results, performance, achievements, or financial position could be materially different from any future results, performance, achievements, or financial position expressed or implied by these forward-looking statements, and the TDK Group undertakes no obligation to publicly update or revise any forward-looking statements after the issue of this material except as provided for in laws and ordinances.

The electronics markets in which the TDK Group operates are highly susceptible to rapid changes, risks, uncertainties, and other factors that can have significant effects on the TDK Group including, but not limited to, shifts in technology, fluctuations in demand, prices, interest and foreign exchange rates, and changes in economic environments, conditions of competition, laws and regulations. Also, since the purpose of these materials is only to give readers a general outline of business performance, many numerical values are shown in units of a billion JPY. Because original values, which are managed in units of a million JPY, are rounded off, the totals, differences, etc. shown in these materials may appear inaccurate. If detailed figures are necessary, please refer to our financial statements and supplementary materials.



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