Attracting Tomorrow TDK

Fiscal 2024 Projections

Noboru Saito

President & CEO

Hello, I am Noboru Saito, President and CEO of TDK. Thank you for joining us today. I would like to go over our full year projections for the fiscal year ending March 2024 and report the progress of our Medium-Term Plan.

Fiscal 2024 Projections

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(JPY bn)	FY2023 Actual	FY2024 Projections	Change	
			JPY bn	%
Net sales	2,180.8	**2,020.0**	(160.8)	(7.4)%
Operating profit	168.8	**190.0**	+21.2	+12.5%
Operating profit margin	7.7%	**9.4%**	+1.7pts	-
Profit before tax	167.2	**188.0**	+20.8	+12.4%
Net profit	114.2	**147.0**	+32.8	+28.7%
Earnings per share (JPY)	301.19	**387.57**	-	-
Dividends (JPY)	106.00	**116.00**	-	-
USD (JPY)	135.46	**130.00**	-	-
EUR (JPY)	140.89	**142.00**	-	-

First, I would like to discuss our projections for consolidated financial results for the fiscal year ending March 2024 and the underlying market conditions.

The global economic growth rate in 2022 was 3.1% due to monetary tightening around the world, the conflict between Russia and Ukraine, and the impact of lockdowns resulting from the resurgence of COVID-19 in some regions. While the economic growth forecast for 2023 announced in January was 1.7%, it was revised upward to 2.0% in April reflecting the recovery trend in China’s economic activities following the relaxation of COVID-19 restrictions. However, the outlook for the global economy will likely remain uncertain due to the protraction of the war in Ukraine, interest rate hikes, and other factors.

Against this backdrop, TDK predicts the production volume of its mainstay products as follows: production volume related to automobiles to increase year on year, related to smartphones to decrease year on year, and related to PCs to remain virtually flat year on year. In addition, TDK expects that the impact of soaring energy prices will continue for some time. Our full-year projections in light of production volume and order status for our major markets are as follows: net sales of 2,200.0 billion yen; operating profit of 190.0 billion yen; profit before tax of 188.0 billion yen; and net profit of 147.0 billion yen. Our exchange rate assumptions are 130 yen against the U.S. dollar and 142 yen against the euro.

Forecast production trend in key markets

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- The ICT market is on the way to recovery while the xEV market is expected to expand.

(Unit mn)	FY2023 Actual	FY2024 Forecast	YoY
Automobile*	84	**88**	+5%
xEV	17.2	**21.9**	+27%
Smartphone	1,143	**1,118**	(2)%
5G Smartphone	593	**607**	+2%
HDD	153	**146**	(5)%
Nearline	55	**60**	+9%
Notebook PC	179	**182**	+2%
Tablet	153	**149**	(3)%

*:The number of Automobile includes commercial vehicles.

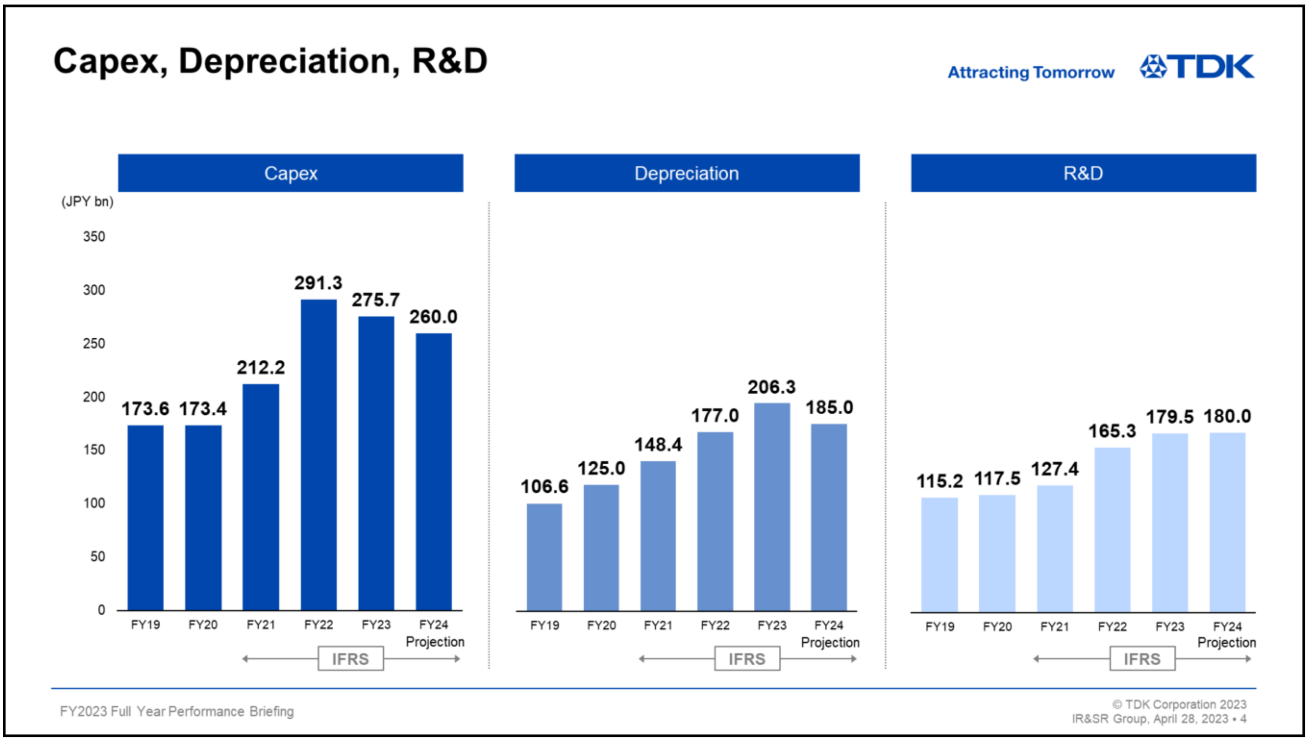
Next, I will explain our forecast production trend in key markets.

We have assumed that automobile production volume, including commercial vehicles, for the fiscal year ending March 2024 will be 88 million units, an increase of 5% year on year. Production of EVs and eco-friendly vehicles, which have a significant impact on TDK's earnings, has been expanding. Therefore, we have assumed that xEV production volume will increase by 27% year on year to 21.9 million units.

Meanwhile, the production volume of smartphones, which represent the ICT market, is assumed to decrease from the previous fiscal year to 1,118 million units. Of which, the production volume of 5G smartphones is expected to increase slightly year on year to 607 million units.

The production volume in the overall HDD market is expected to shrink by about 5% on a year-on-year basis. The production volume for nearline HDDs for data centers is assumed to increase slightly from the previous fiscal year to 60 million units, as the recovery in production volume will likely fall behind the initial forecast. While the production volume for notebook PCs is expected to increase slightly on a year-on-year basis, that for tablets will likely decrease from the previous year. We predict that the production volume for true wireless stereo (TWS) will increase slightly on a year-on-year basis.

As the macroeconomic environment remains extremely uncertain, we think that it is necessary to carefully monitor the trends for component demand.



Now, let me explain the outlook for capex, depreciation and R&D expenses. We predict that capex will be 260.0 billion yen, depreciation will be 185.0 billion yen, and R&D expenses will be 180.0 billion yen.

Cash flows

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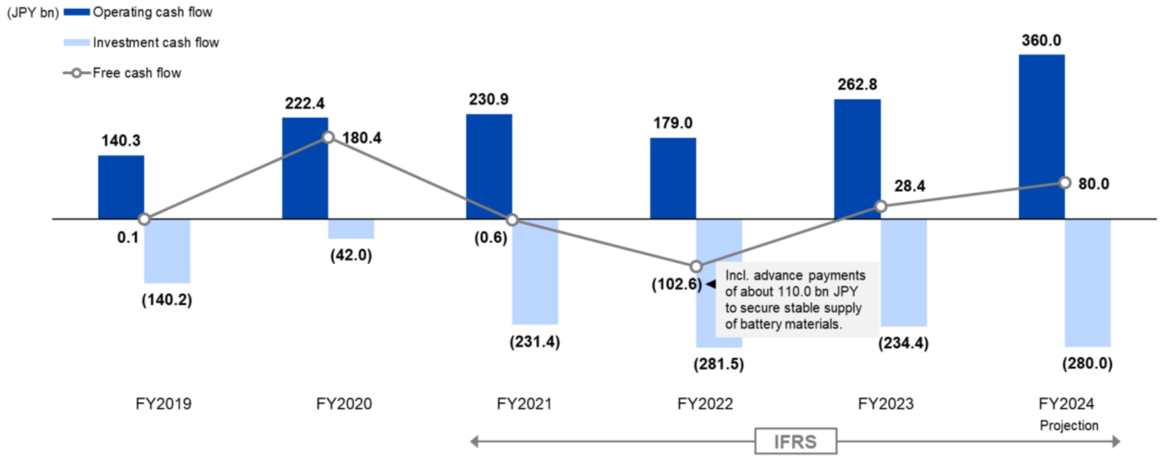
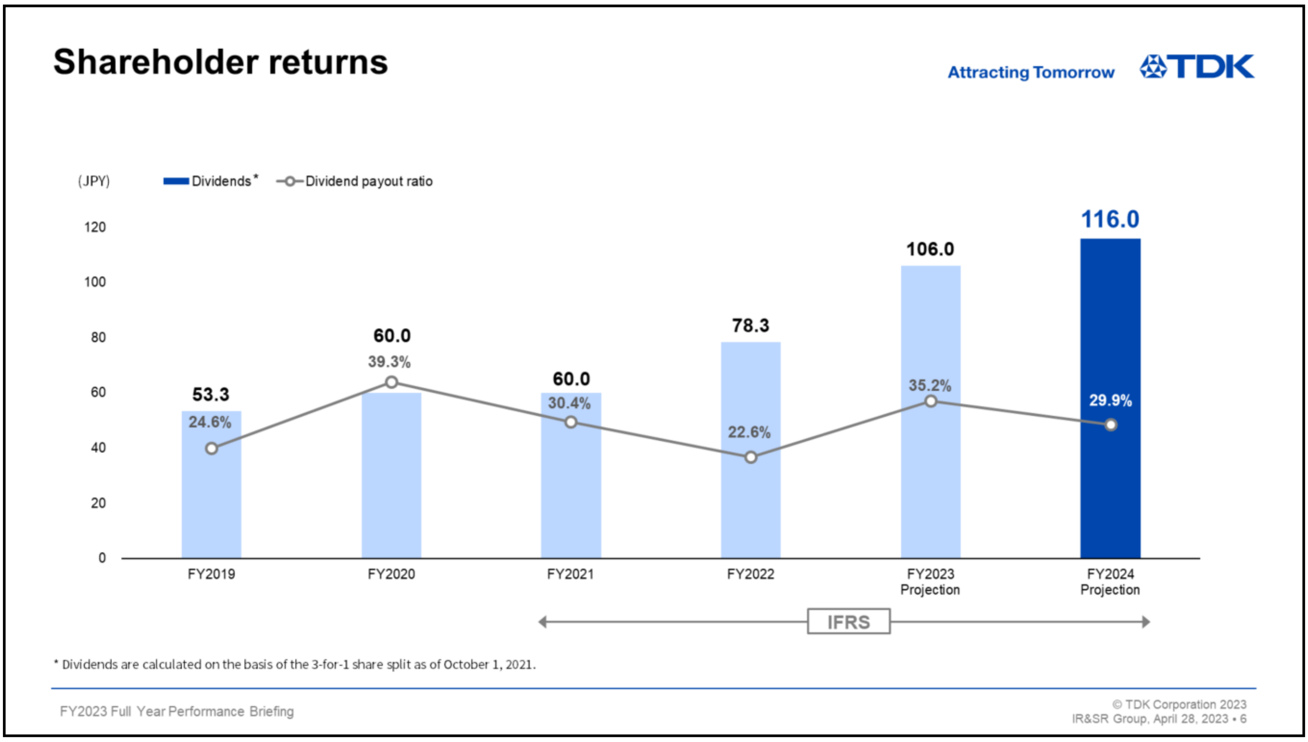
- Operating cash flow increased on the back of profitability improvement mainly in Passive Components and Sensor Application Products.
- Free cash flow is expected to be 80.0 bn JPY for FY2024 due to a decline in investment in Energy Application Products.



Next, I would like to talk about the outlook for cash flows.

Operating cash flow has been increasing on the back of the enhancement of operating capital on top of profitability improvement mainly in Passive Components, such as multi-layer ceramic capacitors (MLCC), and Sensor Application Products, such as TMR sensors.

Free cash flow for the fiscal year ended March 2023 increased 28.4 billion yen, which is expected to grow to 80.0 billion yen for the fiscal year ending March 2024 due to a decline in investment in Energy Application Products.



Next, I would like to talk about shareholder returns.

The dividend payout ratio under our Medium-Term Plan has been set as 30%, taking into account factors including changes in the operating environment, investment in growth businesses and ROE. For the fiscal year ending March 2024, we plan to pay 116 yen as annual dividends, with the aim of achieving the dividend payout ratio of 30%.

Projections by segment

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- Sales are expected to increase year on year in three segments excluding Energy Application Products.

(JPY bn)	FY2023 Actual	FY2024 Projections (YoY)	Factors
Passive Components	578.7	+9 ~ +12%	• Sales of ceramic capacitors and film capacitors, which are for automobile applications, are expected to increase. • Sales of inductive devices to the automotive and the industrial equipment markets are expected to increase.
Sensor Application Products	169.5	+7 ~ +10%	• Sales of magnetic sensors and MEMS microphones for ICT applications are expected to increase. • Sales of magnetic sensors and temperature and pressure sensors, which are for automobile applications, are expected to increase.
Magnetic Application Products	200.6	+2 ~ +5%	• The HDD production volume is expected to decline by 5%. • Lag in recovery of the HDD market related to data centers.
Energy Application Products	1,173.4	(22) ~ (19)%	• Production of ICT-related devices is expected to remain sluggish. • Sales price decrease for rechargeable batteries is expected in line with a decline in raw material prices. • Sales of medium capacity rechargeable batteries are expected to decrease as a result of the transfer to a JV.
Other	58.7	-	
Total	**2,180.8**	**2,020.0**	

(Note) In accordance with the reorganization for 1Q of FY2024, certain products of Other are reclassified into capacitors of Passive Components. Thus, the FY2023 figures are also reclassified to conform to the new segmentation.

Now, I would like to explain the image of changes in sales by segment for the fiscal year ending March 2024.

Sales of the Passive Components segment are expected to grow by 9-12% overall on a year-on-year basis. In addition to a rise in vehicle production volume and an increase in sales as a result of the spread of xEVs, sales to the industrial equipment market are also projected to increase.

Sales of the Sensor Application Products segment are expected to grow by 7-10% year on year. We expect an increase in sales of magnetic sensors, such as TMR sensors and hall sensors, whose demand has been brisk for ICT and automobile applications, as well a temperature and pressure sensors whose demand will likely grow on the back of demand related to xEVs.

Sales of the Magnetic Application Products segment are expected to grow by 2-5% year on year. Production volume for HDDs is expected to decrease by 5% year on year. We also predict that the recovery in production volume for nearline HDDs for data centers will remain below the initial forecast.

Sales of the Energy Application Products segment are expected to decrease by 22-19% year on year. Demand related to smartphones, notebook PCs and tablets will likely remain sluggish. Selling prices of rechargeable batteries are expected to fall to a certain extent in line with a decline in raw material prices. In addition, sales are assumed to decrease as a result of the transfer of the medium capacity rechargeable battery business, including energy storage system (ESS) and electric motorcycles, to the JVs.

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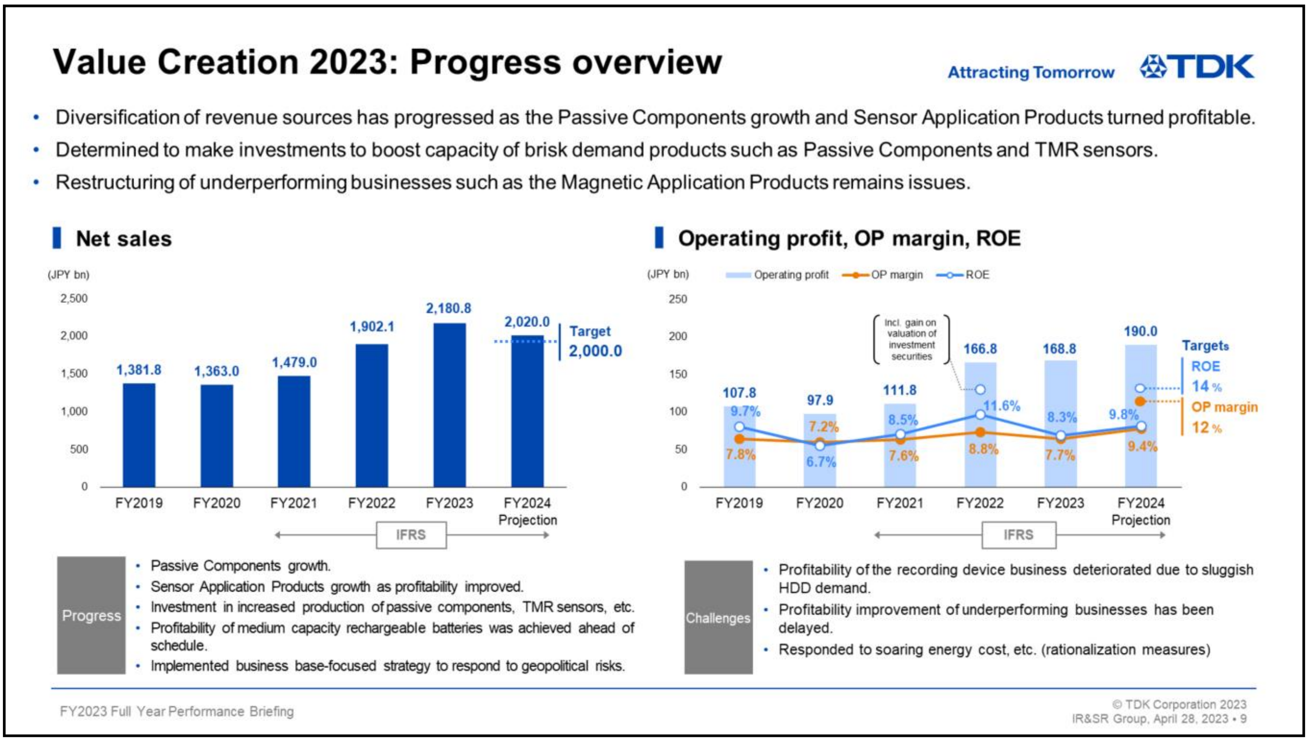
Progress Report on Medium-Term Plan

- Value Creation 2023 -

Next, I would like to talk about the progress of our Medium-Term Plan, “Value Creation 2023,” which ends in the current fiscal year.



In formulating the current Medium-Term Plan, we positioned the development of businesses other than small capacity rechargeable batteries, which had driven TDK's growth for the past decade, and the diversification of revenue sources as significant themes, while implementing various initiatives amid rapid changes in our operating environment.

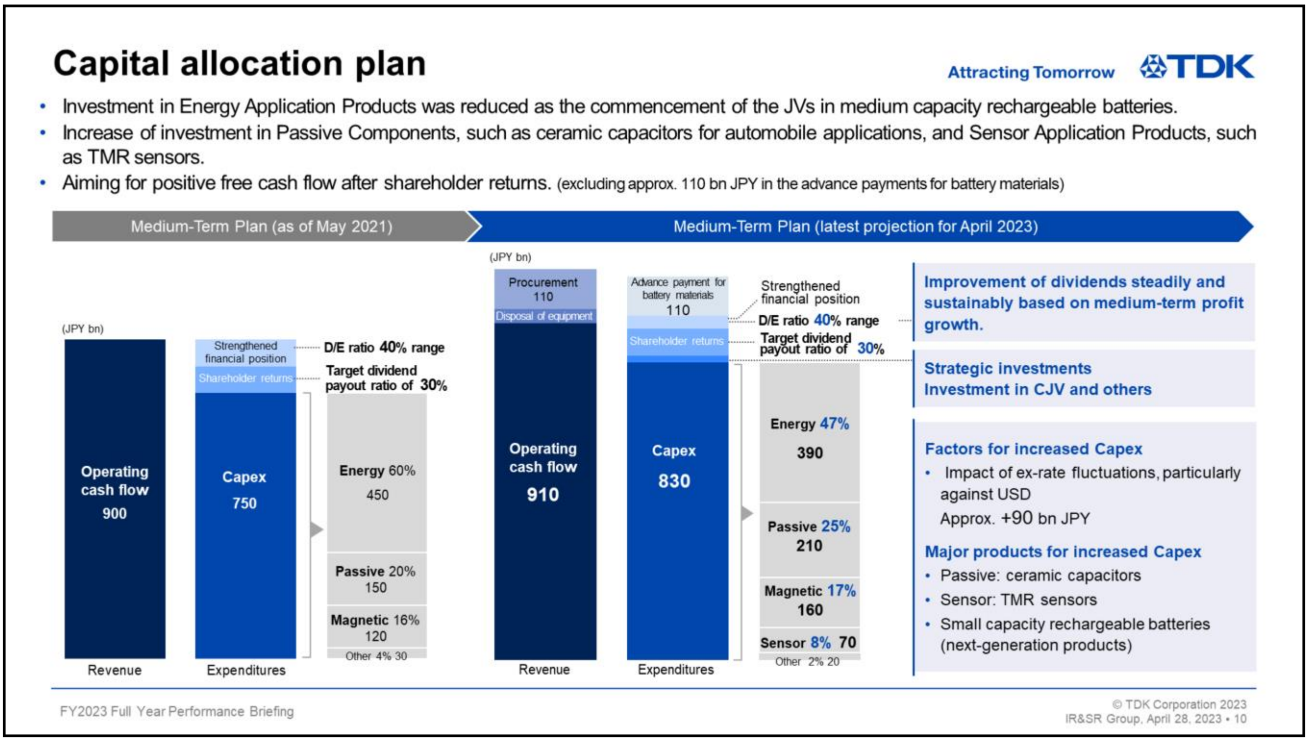
Specifically, we have been promoting growth strategies with a focus on Passive Components mainly for automobile and industrial equipment applications, Sensor Application Products mainly for the ICT market, such as those for smartphone applications, and medium capacity rechargeable batteries mainly for RESS and electric motorcycles.

By regarding the global trend toward realizing a decarbonized society as a growth opportunity, our passive components business, mainly for xEV applications, has grown significantly, becoming another revenue source following rechargeable batteries. In the medium capacity battery business, mainly for RESS, sales expanded steady, enabling us to achieve profitability ahead of schedule.

In terms of the Sensor Application Products segment, which had not been contributing to earnings in the past, TMR sensors and MEMS motion sensors have become growth drivers and realized sales growth with profitability improvement, enabling the segment to contribute to earnings.

In particular, we have determined to make investments to boost production of ceramic capacitors and TMR sensors in order to meet the brisk demand expected in the next couple of years. We are also considering investments looking further ahead. In order to respond to geopolitical risks, we have been making investments in India for rechargeable batteries and the Philippines for passive components.

On the other hand, we recognize the restructuring of underperforming businesses such as HDD heads, HDD suspension assemblies, and HDD suspension application products, whose profitability deteriorated considerably due to a sharp drop in HDD related demand, as a significant challenge. We would like to realize profitability improvement as early as possible through our restructuring and other efforts. In addition, in order to respond to soaring energy prices, we will implement rationalization efforts and enhance our earnings position.



Now, I would like to explain the changes from our initial capital allocation plan.

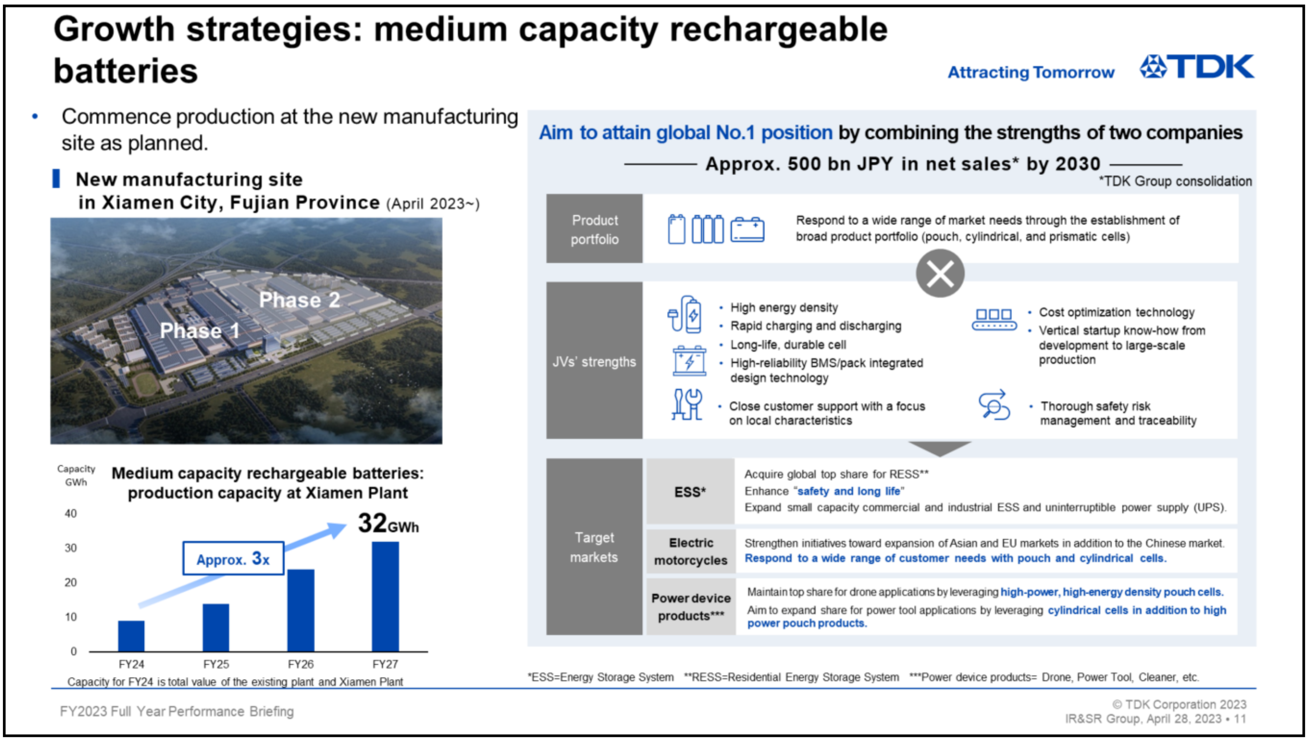
Under the current Medium-Term Plan, we initially planned for capex of 750.0 billion yen in total for three years. Currently, we are planning to increase capex to 830.0 billion yen in total for three years, including about 90.0 billion yen as a result of an increase due to foreign exchange fluctuations, in order to make upfront investment in businesses which are expected to grow in the future.

Specifically, the amount of investment in the Energy Application Products segment, for which 450.0 billion yen had been allocated initially, will be reduced significantly to 390.0 billion yen, taking into account a decrease in investment burden due to the commencement of the JVs in medium capacity rechargeable batteries and the current operating environment surrounding small capacity rechargeable batteries.

On the other hand, we are planning to significantly increase the amount of investment in MLCCs, film capacitors, and inductive devices, for which demand is expected to grow substantially for xEVs and renewable energy applications, from 150.0 billion yen initially to 210.0 billion yen.

In addition, we are planning to make a 70.0 billion yen investment in TMR sensors, for which demand is expected to increase for smartphone, automobile, and industrial equipment applications, by significantly increasing the investment amount from the initial plan.

Given the improvement in operating capital and an increase in cash inflow as a result of the disposal of equipment to the JVs in medium capacity rechargeable batteries, we are aiming for positive free cash flow after shareholder returns excluding about 110.0 billion yen in the advance payments for ensuring long-term stable procurement of battery materials.



Now, I would like to talk about the progress of the growth strategies for TDK's mainstay businesses.

In medium capacity rechargeable batteries, we commenced operations at the manufacturing site of our JV in Xiamen City, Fujian Province in China. We are planning to expand production capacity from almost 10GWh currently to 32GWh by the fiscal year ending March 2027.

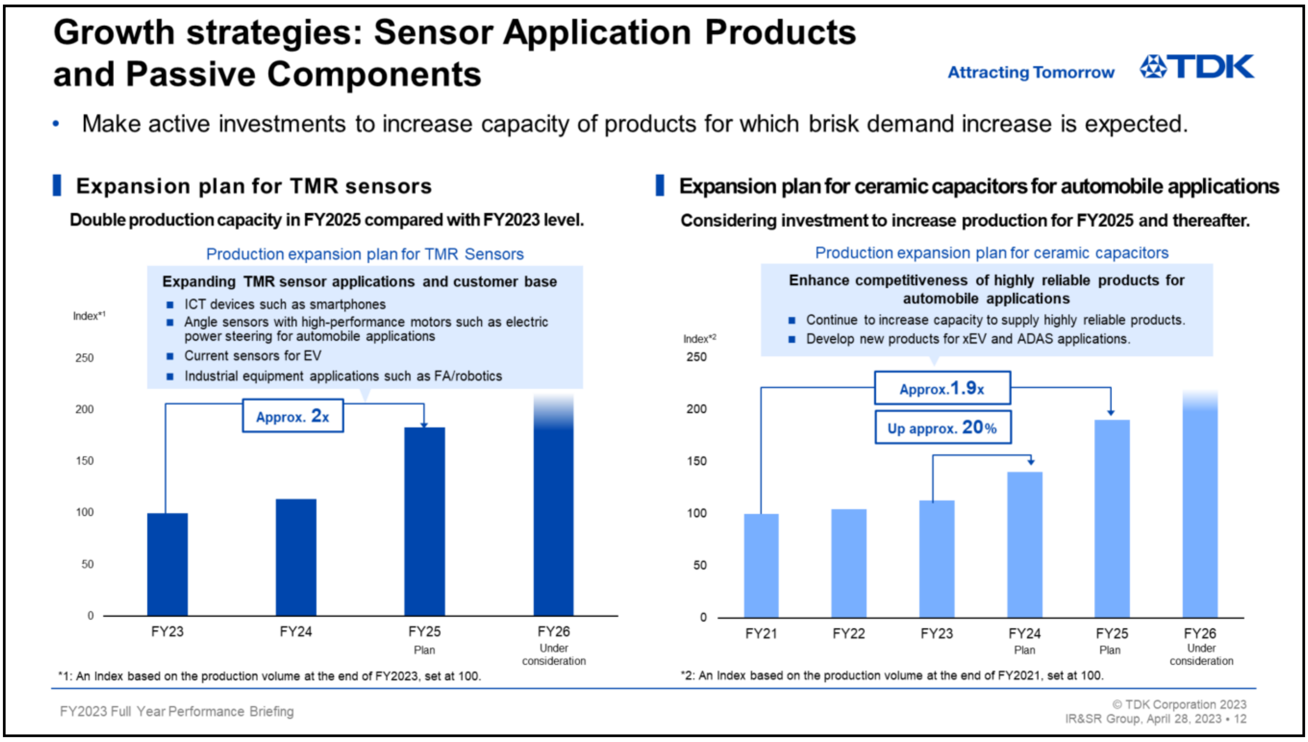
As for the product portfolio, we will offer a wide range of products including pouch cells, in which TDK has strengths, and cylindrical and prismatic cells, in which CATL has strengths, with the aim of expanding our share in the target markets by maximizing the strengths of two companies.

In the ESS market, we have already acquired the top global share in RESS market with our long-life, durable cells and pack integrated design technology. However, by further enhancing safety and long life, we will also expand our share in small capacity commercial and industrial ESS and uninterruptible power supplies (UPS).

In the electric motorcycle market, in order to capitalize on the expansion of demand in the Asian and European markets, which are expected to grow in the future, we will respond to a wide range of customer needs with pouch and cylindrical cells by leveraging our close after-sales services in accordance with regional characteristics and thorough safety risk management capabilities.

In the power device market, we will maintain our top share for drone applications by leveraging high-power, high-energy density pouch cells and aim to expand our share for power tool applications by leveraging cylindrical cells in addition to pouch products.

By combining the two companies' strengths in manufacturing, technologies, products and services, we aim to attain the global No.1 position and deliver about 500.0 billion yen in sales on a consolidated basis by 2030.

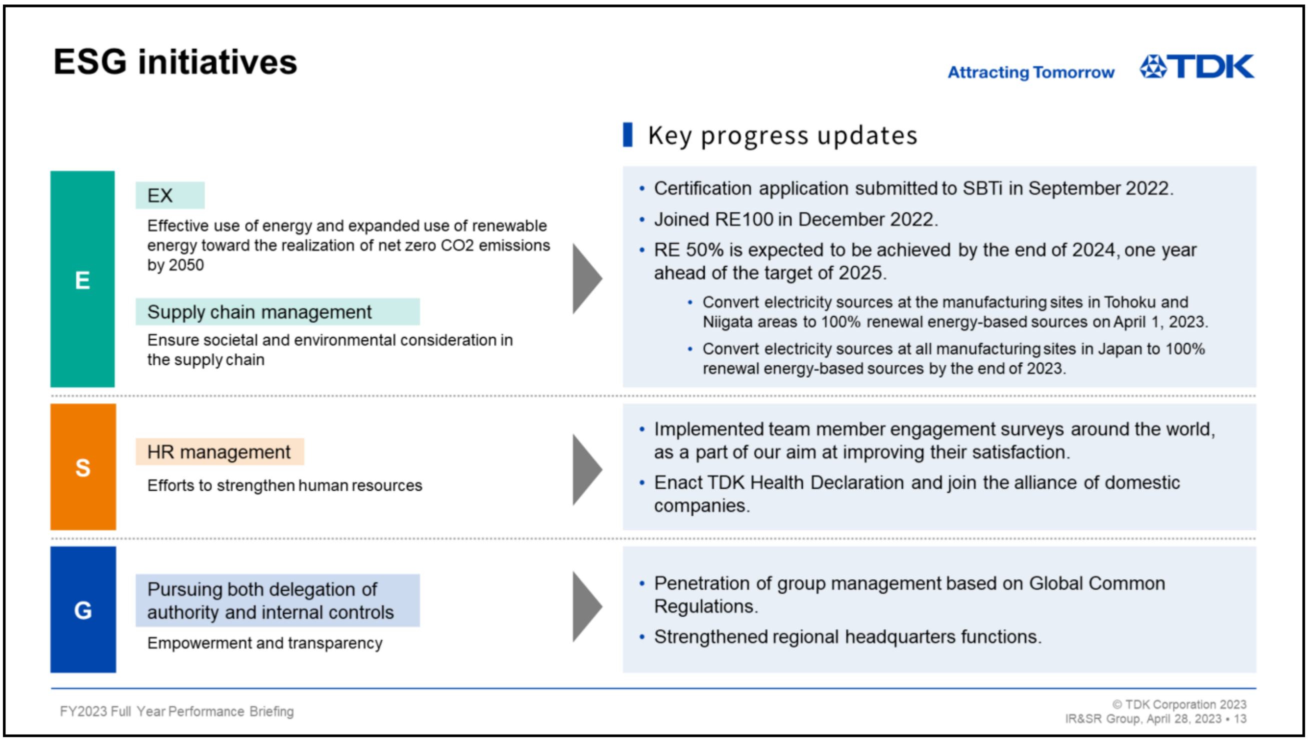


Now, let me talk about our investments to increase the production capacity of products such as Sensor Application Products and Passive Components.

First, in TMR sensors, we have determined to invest in Asama Techno Plant located in Saku City, Nagano Prefecture in order to double production capacity in the fiscal year ending March 2025 compared with the level of the fiscal year ended March 2023. Demand is expected to increase in the future for ICT devices such as smartphones, angle sensors with high-performance motors such as electric power steering for automobile applications, current sensors for EVs and industrial equipment applications such as FA/robots. Therefore, we are also considering to make investments to increase production capacity for the fiscal year ending March 2025 and thereafter.

As for the investment to increase MLCC production capacity announced in May 2022, we are planning to commence mass production around April 2024, about five months ahead of the initial plan. As demand continues to steadily grow mainly for high-performance and highly reliable products for automobile applications such as xEVs and ADAS, we are also considering to make investments to increase production capacity for the fiscal year ending March 2025 and thereafter.

Along with these investments for capacity expansion, we will further strengthen our capabilities to develop sensors and passive components.



Lastly, I would like to talk about our ESG initiatives.

First, in terms of "E (Environment)," a certification application was submitted to SBTi in September 2022 and TDK joined RE100 in December 2022. Renewable Energy (RE) 50% is expected to be achieved by the end of 2024, one year ahead of the target of 2025. As a specific initiative for this, we converted electricity sources at our manufacturing sites in the Tohoku and Niigata areas to 100% renewal energy-based sources on April 1, 2023. We are planning to convert electricity sources at all of our manufacturing sites in Japan to 100% renewal energy-based sources by the end of 2023. We will continue to make efforts for effective use of energy and expanded use of renewable energy toward the realization of net zero CO2 emissions by 2050.

Second, in terms of "S (Social)," with the notion that "people" are the most important assets of the company, we have been making active efforts to strengthen human resources. During the current fiscal year, we implemented team member engagement surveys around the world, as a part of our aim of improving team member(employee) satisfaction. Based on the survey results, we will implement various measures aimed at strengthening human resources in the future. In addition, at TDK, all of our employees are making daily efforts to improve quality in every aspect including products, safety and workstyles. In particular, we recognize the mental and physical health of every team member as one of the most important management issues. For this purpose, we have enacted the TDK Health Declaration. We would like to contribute to realizing a sustainable society by joining the Health & Productivity Management Alliance, an alliance of domestic companies to design a model for health and productivity management and co-create solutions to make it work and by enhancing the quality of life as well as work.

Lastly, in terms of "G (Governance)," under the governance policy of empowerment and transparency (delegation of authority and enhancement of transparency), we have been making active efforts to promote delegation of authority to our core subsidiaries and other operating subsidiaries.

By setting basic rules to adhere to on a global basis as the Global Common Regulations, the head office and regional headquarters in Japan, Europe, the U.S. and China have established complementary relationships with each other. As for headquarters functions, we have established a system in which cross-functional functions such as technology development, marketing, legal affairs and finance support the management of business units and regional subsidiaries. The regional headquarters, which have traditionally been primarily responsible for business management functions, have also begun to take on the role of planning growth strategies unique to the region, creating a structure that enables effective, efficient and dynamic decision-making at the forefront.

In the short term, the global macroeconomic environment is expected to remain highly volatile, but we will steadily implement each of these growth strategy measures and continue and strengthen our non-financial initiatives, including those related to ESG, to increase our corporate value over the medium to long term.

That concludes my presentation. Thank you very much for your attention.

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.

Text data including Q&A of performance briefing will be uploaded on following site.
https://www.tdk.com/en/ir/ir_events/conference/2023/4q_1.html