Message from the Executive in Charge of Accounting, Finance & Corporate Planning

Member of the Board of Directors and Executive Vice President
Director of Accounting, Finance & Corporate Planning Group
Masanori Minamide

We intend to strengthen our management base and seek to achieve sustainable growth based on our business vision for 2030.

Practicing the Murata Philosophy and strengthening our business management system to secure future growth

My name is Masanori Minamide, and I was appointed Member of the Board of Directors and Executive Vice President after the resolution adopted at the General Meeting of Shareholders and the Board of Directors meeting held this past June. I am primarily in charge of corporate planning and finance. As such, I am responsible for business management, so I would like to explain the details of Murata's business management, mid-term business plan, and long-term vision.

Murata's long-standing commitment to building trusted relationships with stakeholders, customers, investors, partner companies, and local communities, coupled with an ongoing effort to foster an honest corporate culture, has spurred the company's growth to date.

One personal experience left a lasting impression during the IT bubble burst in the early 2000s. I oversaw investor relations at the time. Mobile phone and computer-related market were expanding rapidly and the stock prices of related companies, including Murata, were hitting record highs. Murata was one of the first companies to mention that customers might be over ordering after conducting a detailed analysis of their order contents. At the time, the stock market called it the "Murata Shock," but I remember how positively investors evaluated Murata's sensitivity to changes in the market environment and swift dissemination of information as it became clear that the IT bubble had burst. To me, this is a clear example of Murata's commitment to "being trustworthy" as embodied in the Murata Philosophy.

A quick look back over Murata's history reveals another growth-contributing factor, namely the company's ability to make flexible capital investments at key turning points. For example, when the global economy was heading into a significant decline because of the Global Financial Crisis, Murata used its solid financial base to fund some bold investments, capture growth in the smartphone market, achieve a V-shaped recovery, and then significantly scale of its business.

Another thing that I am keenly aware of is that Murata's value creation model has been functioning effectively for a long time, ensuring that each link in the value chain is firmly connected and continuing to provide competitive products that meet market needs in a timely manner. Furthermore, Murata's human resources, accounting, IT systems, and other business management frameworks have been built by applying a "scientific approach," another key Murata Philosophy commitment. That has enabled those systems to operate smoothly with Murata's value-creation model and support the company's management base. Murata's long-serving matrix management system and its business evaluation system, which takes into account capital costs, are good examples of this.

However, there is a growing need to change the business management system that has supported our growth as the scale of our business expands and the nature of our business changes. My job is to protect the inherent strengths of our existing business management system while establishing new frameworks that Murata will need to hit the next stage of its corporate development.

Kept the COVID-19 impact in check and achieved another record high performance

We predicted a decline in sales and profits for fiscal 2020 at the beginning of the fiscal year due to considerable concerns over the impact of the COVID-19 pandemic, but demand exceeded our initial expectations. We increased the production of notebooks, tablets, and game consoles, etc. on the back of increased telecommuting and stay-at-home requirements. In addition, demand for smartphone-related products proved relatively strong and the need for automotive-related products recovered significantly from the second half of the fiscal year onward. We were also able to implement flexible supply chain management, including switching production from overseas factories that had to temporarily suspend operations due to COVID-19 to alternative factories in Japan. These aspects all contributed to Murata's record high performance in fiscal 2020.

Aiming to further improve performance in fiscal 2021

Regarding the outlook for fiscal 2021, we expect demand for components to continue to grow with the adoption of 5G and the increased electrification of automobiles providing a strong tailwind. Indeed, the earnings forecasts we announced on July 29, 2021 suggest that fiscal 2021 results will likely outstrip fiscal 2020 and generate another record performance. Indeed, the earnings forecasts we announced on July 29, 2021 suggest that fiscal 2021 results will likely outstrip fiscal 2020 and generate another record performance.

Having said that, cities might once again be forced into lockdown depending on what happens with COVID-19. We are also closely monitoring and gathering information on developments in U.S.-China relationship as a geopolitical risk. We will need to diversify our production and materials procurement routes in our supply chain over the medium to long term, so we intend to review our investment plans and other strategies for the future.

I see the global semiconductor shortage as another risk factor. In addition to the expected decline in global automobile production, our module business is being affected by issues with materials procurement. Inventory adjustments in China's smartphone market are another volatile factor that could impact our business performance.

Regarding capital expenditure, we expect a total of approximately 170.0 billion yen in fiscal 2021, down 30.0 billion yen year on year. We completed the round of upfront investment from fiscal 2017 to fiscal 2020 to acquire the land and buildings to increase our production capacity. While that portion of expenditure will decline in fiscal 2021, we plan to continue our regular capital expenditure in production lines.

Continuously improving capital efficiency

As the person in charge of corporate planning, I report on the progress of our Mid-term Direction 2021. Regarding the portfolio management implementation, the first of three corporate-wide policies in the mid-term direction, , we introduced a feasibility assessment model based on ROIC and operational growth potential and have been monitoring business plans by using hypothetical thinking. As a result, we decreased the smartphone business within our battery business, as well as our Wi-Fi® module business for smartphones. Additionally, to further differentiate our high frequency device business that includes filters and other products, we entered into an agreement with Resonant Inc. regarding the exclusive development of high-frequency filters for specific frequencies using XBAR® technology.

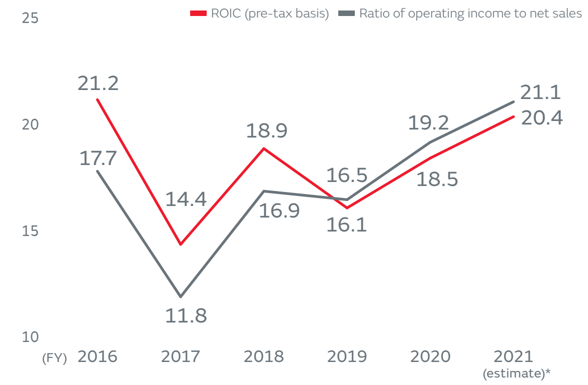
Regarding the second corporate-wide policy, the establishment of advanced supply system and exponential productivity enhancement, we have steadily pushed ahead with capital expenditure in the wake of expanding medium- to long-term product demand. We raised 150.0 billion yen in the corporate bond market, which we are using together with operating cash flow funds to promote this policy.

With respect to our third corporate-wide policy – harmony among people, organization, and society – we are developing ESG management after clarifying key materiality issues originating from social issues.

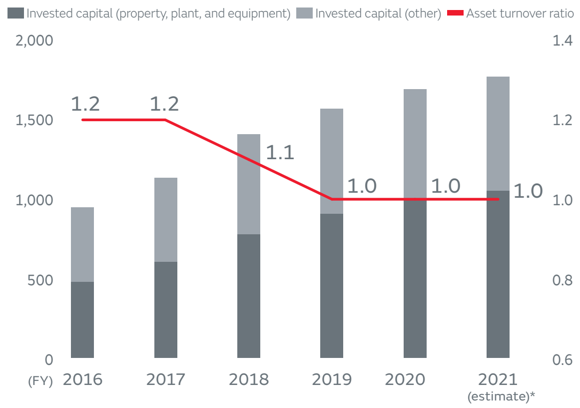
As to Mid-term Direction 2021 numerical targets, while net sales are not likely to meet the two trillion yen target due to the impact of U.S.-China trade friction and the COVID-19 pandemic, we do expect both the ratio of operating income to net sales and ROIC (pre-tax basis) to exceed the target based on our earnings forecast for fiscal 2021 announced on July 29, 2021.

Our analysis suggests that the typically more moderate swing between vigorous component demand and price reductions will create a more favorable environment for our 2021 business performance, which has led to a higher ratio of operating income to net sales, and ROIC. However, this also means that there is a risk that the ratio of operating income to net sales and other levels could fall if the business environment changes significantly. For that reason, we aim to create an earnings framework that is more resilient to changes in the immediate environment and continue to improve capital efficiency by enhancing productivity, optimizing fixed costs, and reviewing our business portfolio.

Ratio of operating income to net sales, ROIC (%)



Invested capital (Billion yen or times)



*From earnings forecast announced on July 29, 2021

Formulating our long-term Vision 2030 strategy

To formulate our next mid-term business plan, we clarified Murata's long-term Vision 2030, which looks ahead over a 10-year horizon. In the past, our value creation cycle has pivoted around strengths in the customer base, technology base, and monozukuri (manufacturing) base. Vision 2030 incorporates a sustainability perspective into this cycle. In other words, Vision 2030 takes into account scenarios in which Murata's value creation operates on a sustainable cycle that both contributes to social value and creates economic value through co-creation with stakeholders.

This cycle is supported by human capital, organizational capital, monozukuri capital, intellectual and technical capital, customer and business partner capital, and financial capital. Among those, we delineated organizational capital to include business management and solid corporate governance systems that are both underpinned by the Murata Philosophy. As I mentioned at the beginning, Murata developed its corporate structure and systems in line with the company's growth based on our commitment to applying a "scientific approach" to production sites and business management. That approach fueled Murata's current growth. We aim to further strengthen this business management system that firmly links our value chain by utilizing the organizational capital we have cultivated over our 77-year history. Further, our decision to characterize customers and business partners as capital illustrates our commitment to solving social issues over the long term by creating value for our customers, investors, suppliers, local communities, and other stakeholders.

As for our business model, we established three portfolio layers (layer 1: components, layer 2: devices and modules, layer 3: solutions business and other new fields) and are emphasizing the strengthening of each.

Our next generation of leaders participated in formulating the Vision 2030 together with our President and other senior managers. They played a central role in anticipating the business opportunities and assessing risks that might arise beyond 2030. We then mapped the action plans that would need to be incorporated into the next mid-term business plan to prepare for those potential scenarios. This approach is based on our belief that we need young people to develop long-term visions. This helps ensure that there is not a disconnect between generations and allows for sustainable growth.

Establishing strategic investment allocations in Mid-term Direction 2024

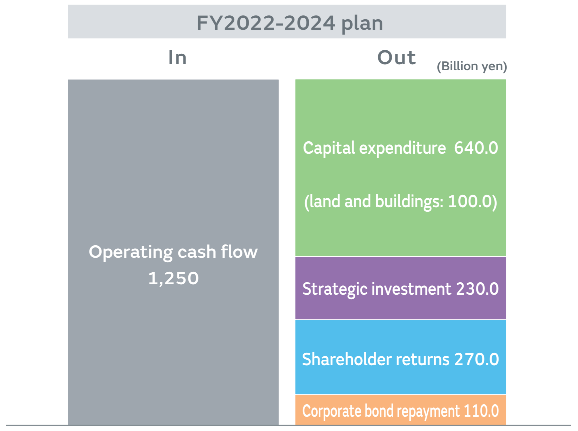
Our Mid-term Direction 2024 contains financial targets of 2 trillion yen for net sales and at least 20% for both the ratio of operating income to net sales and ROIC (pre-tax basis). At first glance, this might look as if we have simply reset the targets of Mid-term Direction 2021, but the anticipated social changes and associated business opportunities and risks are far greater than when we formulated that initial direction. Given that, we positioned the next three years as an extremely important period in terms of building a foundation for sustainable growth in 2030 and beyond. As the person in charge of managing our business plan, I intend to monitor each theme that we are striving to improve in Mid-term Direction 2024 and consistently convey progress to all our stakeholders (▶ P.37 Mid-term Direction 2024)

We also clarified our capital allocations in Mid-term Direction 2024. In addition to the usual capital expenditure allocation, we set a strategic investment quota against total planned operating cash flow through fiscal 2024. We project that our business opportunities will steadily expand as we approach 2030. We intend to firmly grasp those opportunities, sow the seeds that will lead to sustainable growth in the three years from 2022, and establish frameworks to prepare for upcoming risks and opportunities even more earnestly than we have in the past. More specifically, we will implement business alliances and M&A to clearly differentiate growth businesses in an increasingly competitive environment and invest in diversifying and fortifying our supply chain against geopolitical risks. We also intend to inject capital in the leading investments required to work on our key materiality issues, including response to climate change to achieve RE100 in 2050 and support the creation of new business opportunities.

In terms of shareholder returns, we aim to keep increasing dividends by achieving a dividend payout ratio to 30% and a dividend on equity (DOE) of 4% or more. We expect to buy back company shares after considering medium- to long-term funding needs, including the status of strategic investment allocations.

On the financial front, we intend to repay the corporate bonds and maintain a solid financial base in preparation for short-term funding needs and any sudden risks by holding a certain amount of cash on hand.

Mid-term Direction 2024 capital allocations



Activities as the Executive in Charge of Accounting, Finance & Corporate Planning

My job is to transform our management system into one that can readily respond to changes and ensure the sound and efficient functioning of the autonomous and decentralized organization that President Nakajima has set forth as the path for achieving organizational and internal management with a firm medium- to long-term focus.

Hypothetical thinking is the key to achieving this goal. Until now, we applied this model to the feasibility assessment in our portfolio management. I intend to incorporate methods of developing and monitoring plans based on hypotheses and assumptions that consider risk management perspectives in our mid-term plans and financial year budgets for our business divisions. Further, if we are going to realize the continuous cycle of social value and economic value outlined in our Vision 2030, we need to enhance the mechanism for incorporating materiality into our business management processes. In addition to promoting corporate-wide initiatives to solve social issues, we intend to design systems that will increase social value from a long-term perspective.

I intend to press ahead with creating an organization that supports these changes by digitalizing our business management functions and developing and nurturing our human resources.

I feel that the role of the executive in charge of finance has been expanding in recent years due to rapidly changing times and increasingly diverse stakeholder expectations and interests. It is my duty to operate our value co-creation cycle and increase corporate value by enhancing the management transparency advocated by President Nakajima, promoting earnest dialogue with all our stakeholders, and using those findings to spur future growth. I thank you for your continues support.