Message from the Director of Corporate Unit

Member of the Board of Directors and Executive Vice President
Director of Corporate Unit
Director of Corporate Management Group
Masanori Minamide

Accelerate our growth strategy with strong financial and organizational capital
We will create a continuous cycle of social value and economic value through value co-creation with our stakeholders.

Vertically integrated model and matrix management supporting high profitability

In fiscal 2021, the environment was marked by dynamic situations as automotive customers were ordering more than needed to build up inventories. In parallel, the shortage of semiconductors constrained the production of various electronic equipment. Against this backdrop, we still achieved record highs in both net sales and operating income for fiscal 2021. Our ability to maintain a high ratio of operating income to net sales is due to our vertically integrated business model and management system.

We adopted a vertically integrated model that captures added value by conducting as much in-house as possible from materials to the development and manufacture of production processes and equipment. To remain competitive over the long term, we need to put our technology in a black-box, continue to create new products, and increase our profit margins through product renewal. Our internal production process enables us to create new products ahead of competitors, work on improving product quality from the source, and build a system that can provide a stable supply of products from a medium- to long-term perspective, all of which contribute to our strength.

Another strength of the company is our established value chain, which consists of core competencies such as the power to read the future, the power to give shape to needs, and the power to deliver value. The business management system parallels the business model as it strengthens the value chain, incorporates customer needs, and develops technology laterally. Specifically, the business division organization is captured on the vertical axis, and the organization that manages production activities and other forms of site management is represented on the horizontal axis. Matrix management is conducted by linking a three-dimensional matrix organization that includes the functional staff supporting these site organizations and the management accounting system. In addition, we introduced a divisional income system, including income by process and site and adopted an independent income system. As a result, the sites are characterized by a strong sense of ownership and cost. This successful harmonization of the corporate culture, business management system, and organizational structure have been the foundation of our high profitability. (▶P.29 Murata's management capital and core competencies)

The concept and structure of ROIC management is well-established

We have been setting ROIC (pre-tax basis) targets since the Medium-term Direction 2021. Cost consciousness has been ingrained since the time of our founder, and our manufacturing department operated its business using an indicator called return on direct capital employed. Within this indicator lies the founder's desire to be mindful of output relative to invested capital in order to maximize capital investment. To maximize transparency, we began sharing the internal ROIC indicators in dialogues with our stakeholders.

Through activities to foster ROIC management principles, we want sites to understand that they key contributors by breaking down processes and incorporating the results of improvements such as inventory levels, equipment utilization rates, and defect rates into numbers. To further instill this, employees should be given a strong image that their actions are actually linked to the bottom line. That is one of our challenges going forward.

We also believe that ROIC should be improved over the long term and needs to be in harmony with CS and ES and social value, and ultimately enhance corporate value. We must not get caught up in short-term numbers at the expense of long-term value creation. We believe that co-creating value with our shareholders, investors, customers, suppliers, and other stakeholders, and improving ROIC will become consistent over the long term. To this end we will carefully evaluate the priority of each initiative.

Background and intention of treasury stock acquisition

In the fiscal 2021 financial results, we announced a share repurchase program. Our policy for returning profits to shareholders is to increase dividends in a stable manner, aiming for a dividend on equity (DOE) of 4% or more with a targeted payout ratio of 30%. The decision to acquire treasury stock was based on future operating cash flow projections and the level of investment for growth. Although our policy is to maintain 2.5 to 3.5 months of liquidity, we exceeded that level at the end of the fiscal year, which was one reason for the acquisition. We feel that shareholders and investors responded favorably to our first stock acquisition since 2011 because it was based on the premise that we would steadily invest in growth over the medium-to long-term.

Declaration of an approach in Medium-term Direction 2021 and importance of encouraging changes

Looking back on the Medium-term Direction 2021, I feel that as the company grew and became more difficult to align the management vector, we were able to progress as an organization by setting a medium-term focus to work on company-wide.

In "practicing portfolio management" as a measure to efficiently allocate resources from the perspective of company-wide optimization, we introduced a feasibility assessment model based on operational growth potential and ROIC to review our business portfolio and conducted M&As to acquire differentiated technologies. We also made steady progress in the automotive market, one of our focus markets, and were able to increase the percentage of net sales for this market to 18.6%, up 2.2% from fiscal 2018.

In "dramatically increasing productivity and building a stable supply system," we built a solid supply system, especially in the component business. We focused on IT-based supply chain planning and worked on smart factories and data mining for quality improvement.

In the "harmonization between people, organizations, and society" category, while the initiative was in line with the overall social movement, I believe that since we set it as a priority issue three years ago it has led to a significant change in employee awareness and progress in a variety of initiatives. Specifically, we set and implemented key issues (materiality) and KPIs starting from social issues, and measured engagement indicators and identified issues through employee surveys. Among these issues, considerable progress was made in environment-related areas, such as joining the RE100 initiative and promoting renewable energy and energy-saving initiatives to achieve this, obtaining SBT certification, and disclosing financial information in accordance with the TCFD. In terms of system design, we introduced both an internal carbon pricing system and a sustainability investment promotion system. (▶P.37 Medium-term Direction 2021 review)

Teaming with stakeholders on our long-term Vision 2030

To sustainably enhance our corporate value, have formulated Vision 2030, a new long-term direction for 2030, and Medium-term Direction 2024, the first phase of the Vision 2030, which was announced in November 2021. In Vision 2030, we set "innovating to create a continuous cycle of social and economic value and contribute to the enrichment of society" capturing where Murata wants to be with "co-creating value with shareholders" at the center of that vision.

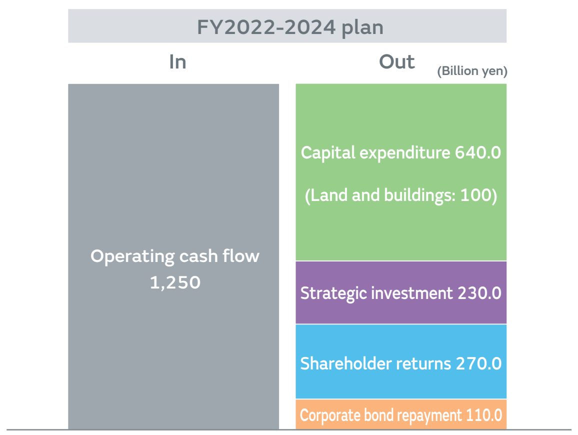
It takes a considerable amount of time before a continuous cycle of social value and economic value is created, specifically before the enhancement of social value can lead to the enhancement of corporate value. Between now and then, we are committed to best practices in management statements and company actions. As the person in charge of business management, I believe it is my responsibility to incorporate the concept of a continuous cycle of social value and economic value into the business management process. In other words, we strive to support institutional functions such as management accounting and position it as an key issue in dialogue with stakeholders.

In Medium-term Direction 2024, we set goals to
achieve 2 trillion yen in net sales, a ratio of operating income to net sales of at least 20%, and ROIC (pre-tax basis) of at least 20%. Although we received some harsh feedback that these are conservative targets, in our view, they represent management's intention to achieve the ratio of operating income to net sales and ROIC targets while making the necessary investments to prepare for medium- and long-term opportunities and risks.

With regard to capital allocation of Medium-term Direction 2024, apart from the usual capital investment quota of 640.0 billion yen, we set aside 230.0 billion yen for a strategic investment quota related to our long-term perspective. In terms of this direction, we are considering investments in sustainability, IT infrastructure with a focus on DX, and risk management. We also intend to allocate a certain percentage to M&As, focusing on the acquisition of differentiated technologies and new business models to strengthen our 3-layer portfolio.

We clarified our capital allocations because we wanted to better communicate with stakeholders how much cash we earn and how it gets allocated. We also expect management to drive internal momentum by declaring the establishment of investment allocations. In fact, there have been cases where setting a strategic investment quota has led to the start of projects that the site had been hesitant to invest in.

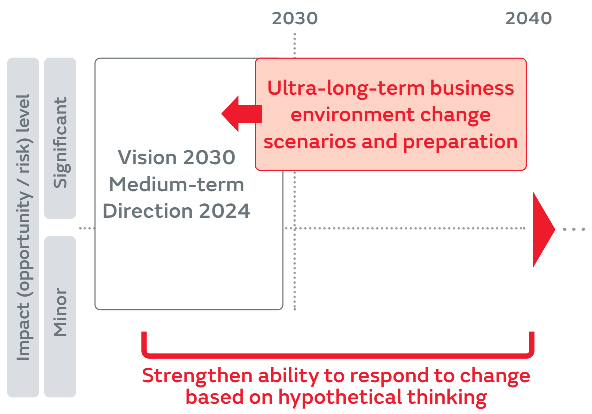
Medium-term Direction 2024 capital allocations



Change-responsive management based on hypothetical thinking for the practice of the autonomous and decentralized organizational management

The company is committed to the practice of autonomous and decentralized organizational management, in which President Nakajima delegates as much decision-making authority as possible to the sites. However, to realize this goal, it is necessary to build a business management system that guarantees autonomy. One of these is the change-responsive management based on hypothetical thinking, which was set forth as a management transformation in Vision 2030. To respond to rapid changes in the business environment, we will take our business management processes to a higher levelbased on hypothetical thinking, which involves communicating success factors of the business and assumptions on which the business plan is based, incorporating them into KPIs as milestones, and effectively monitoring and managing them. Using this hypothetical thinking and a feasibility assessment model, we aim to achieve an environment where business divisions can autonomously and steadily manage portfolios within their businesses.

Change-responsive management based on hypothetical thinking



* Hypothetical thinking: Consider a variety of change hypotheses that could occur in our environment and adjust our course in response to change

Putting hypothetical thinking is the backcasting approach, which is required in building the long-term management base. In formulating Vision 2030, the current management team and potential future leaders had several months of discussions as Readiness Project for 2030 to identify long term hypothetical risks and opportunities and how to leverage them. In this way, we are implementing change-responsive management based on hypothetical thinking from the standpoints of autonomous and decentralized business operations and the establishment of a long-term organizational structure.

To realize sustainable value creation, my responsibility is to evolve while building upon the management philosophy and strengths that Murata has developed over the years. In our value co-creation with stakeholders, we discuss our strategic scenario, commit to it, receive feedback through dialogue, and incorporate it in our management policies which we will continue to refine. We would like to ask all our stakeholders for their continued support throughout this cycle.