Financial Results Briefing

Financial Results for the Year Ended March 31, 2024

May 21, 2024
DAISHINKU CORP. (Code: 6962)
President, Minoru Iizuka

DAISHINKU CORP. Aims to Maximize Operating Profit by Optimizing Output per Unit Area and Per Person

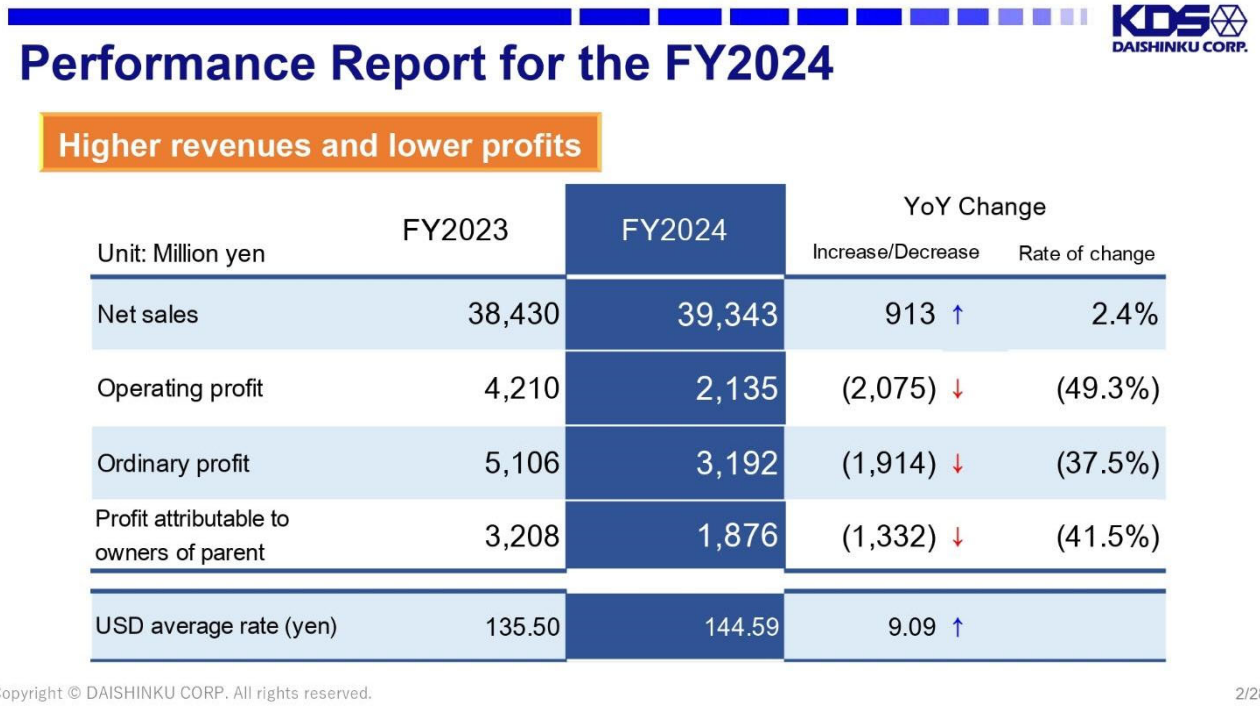
The following is a transcription of DAISHINKU CORP.'s financial results presentation for the fiscal year ended March 31, 2024, which was given on May 21, 2024.

[Speakers]

Minoru Iizuka, President and CEO, DAISHINKU CORP.

Shimpei Hasegawa, Director, Senior Managing Executive Officer, General Manager of Business Supervisory Unit, General Manager of Marketing & Sales Div., DAISHINKU CORP.

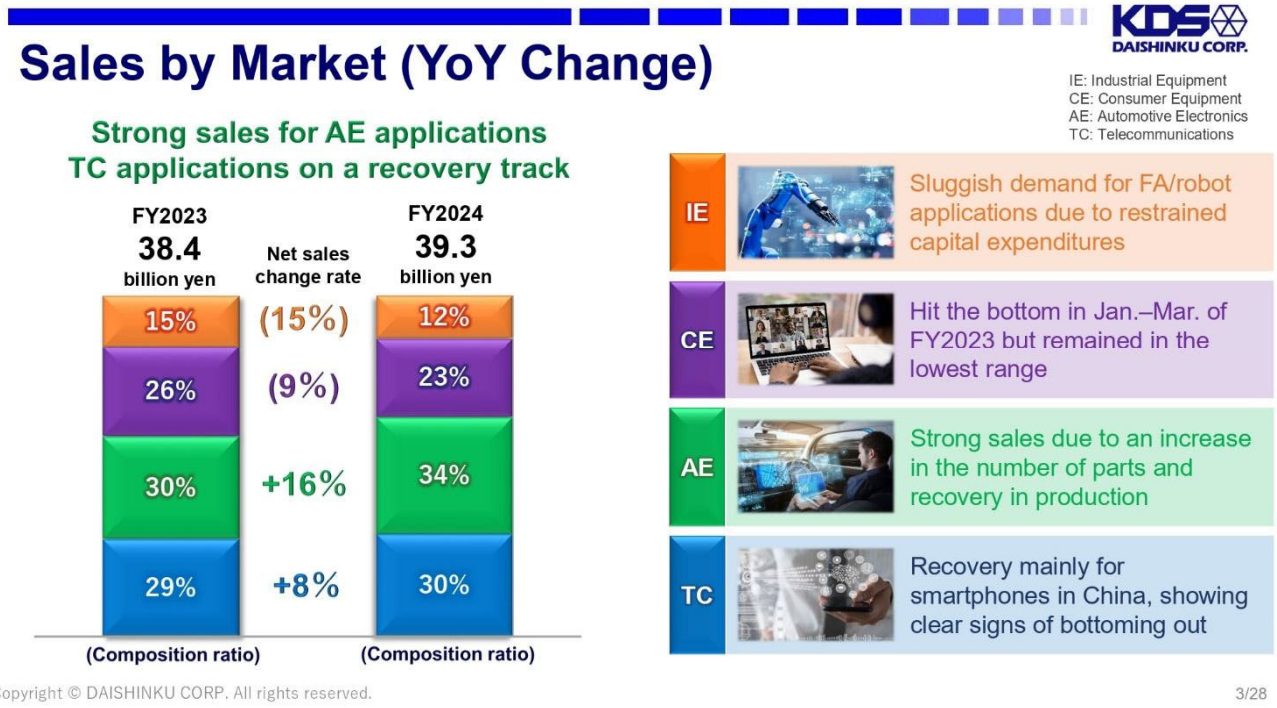
Performance Report for the FY2024



Minoru Iizuka (hereafter, Iizuka): I am Minoru Iizuka, President and CEO of DAISHINKU CORP. Thank you for taking the time to attend our financial results briefing today. Let's proceed with the presentation.

The full-year results for FY2024 showed an increase in sales but a decrease in profit. Net sales were JPY39.343 billion, operating profit was JPY2.135 billion, ordinary profit was JPY3.192 billion, and profit attributable to owners of parent was JPY1.876 billion.

Sales by Market (YoY Change)



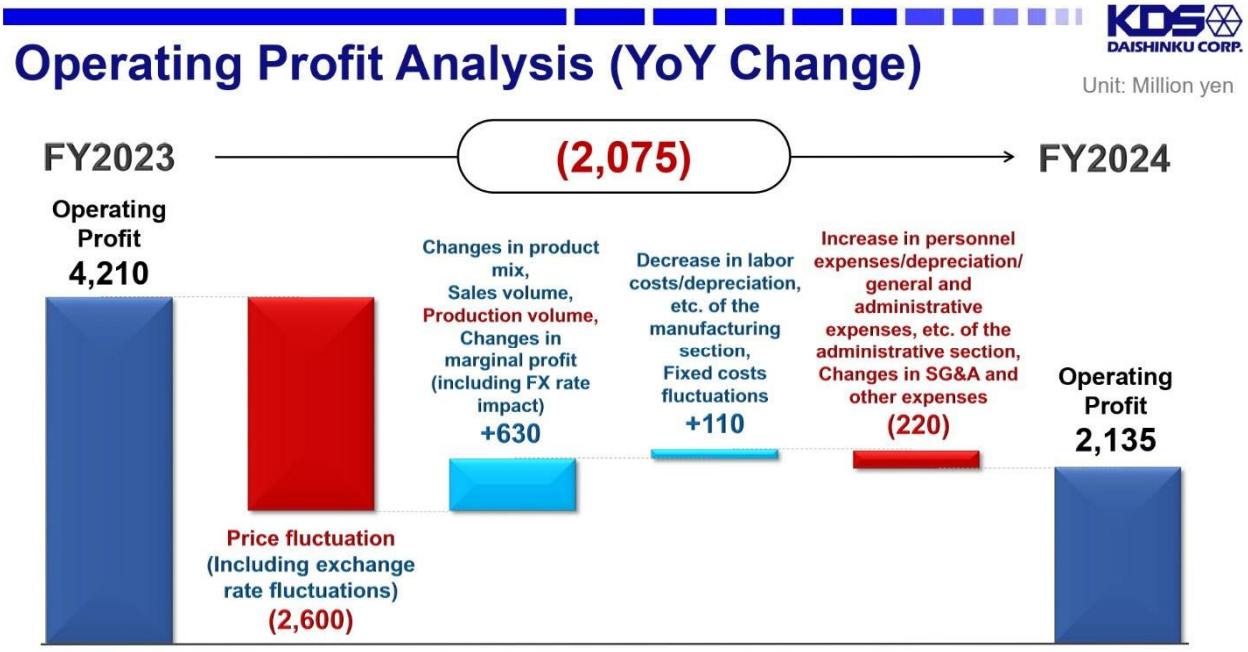
Here are the sales results by market. For industrial equipment market, demand declined due to factors such as restrained capital investment in FA/robotics, resulting in a 15% decrease YoY.

For consumer equipment market, although the bottom was reached from January to March of FY2023, recovery was slow, resulting in a 9% decrease YoY.

For automotive electronics market, strong performance was seen due to increased unit numbers and production recovery, resulting in a 16% increase YoY.

For telecommunications market, the recovery of Chinese smartphones led to a bottoming out, resulting in an 8% increase YoY.

Operating Profit Analysis (YoY Change)



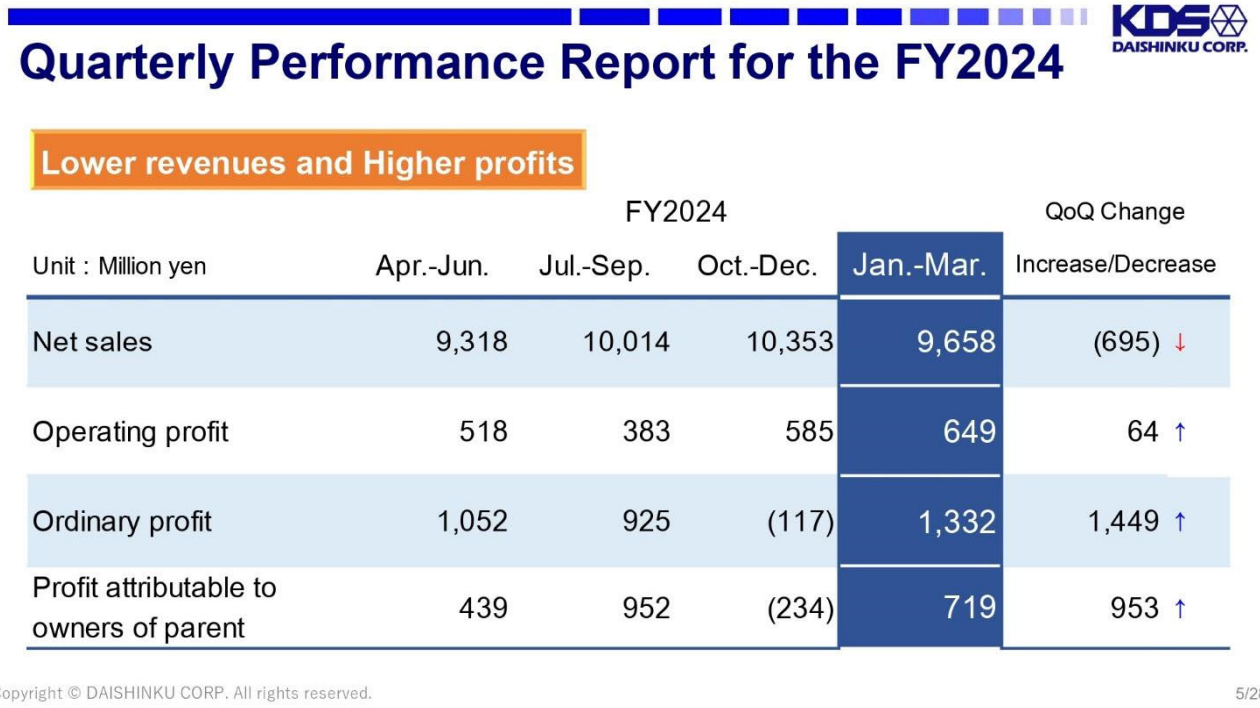
This is the operating profit analysis. Compared to the operating profit of JPY4.21 billion in FY2023, price fluctuations including FX rate impact resulted in a JPY2.6 billion decrease.

While changes in the mix and increases in sales volume had a positive impact, a decrease in production volume due to operational adjustments resulted in a marginal profit change of JPY630 million.

In the manufacturing division, fluctuations in fixed costs had a positive impact, resulting in an increase of JPY110 million. In the indirect division, mainly due to an increase in overseas SG&A expenses, there was a JPY220 million decrease.

As a result, the operating profit for FY2024 landed at JPY2.135 billion.

Quarterly Performance Report for the FY2024



Quarterly Performance Report for the FY2024

KDS DAISHINKU CORP.

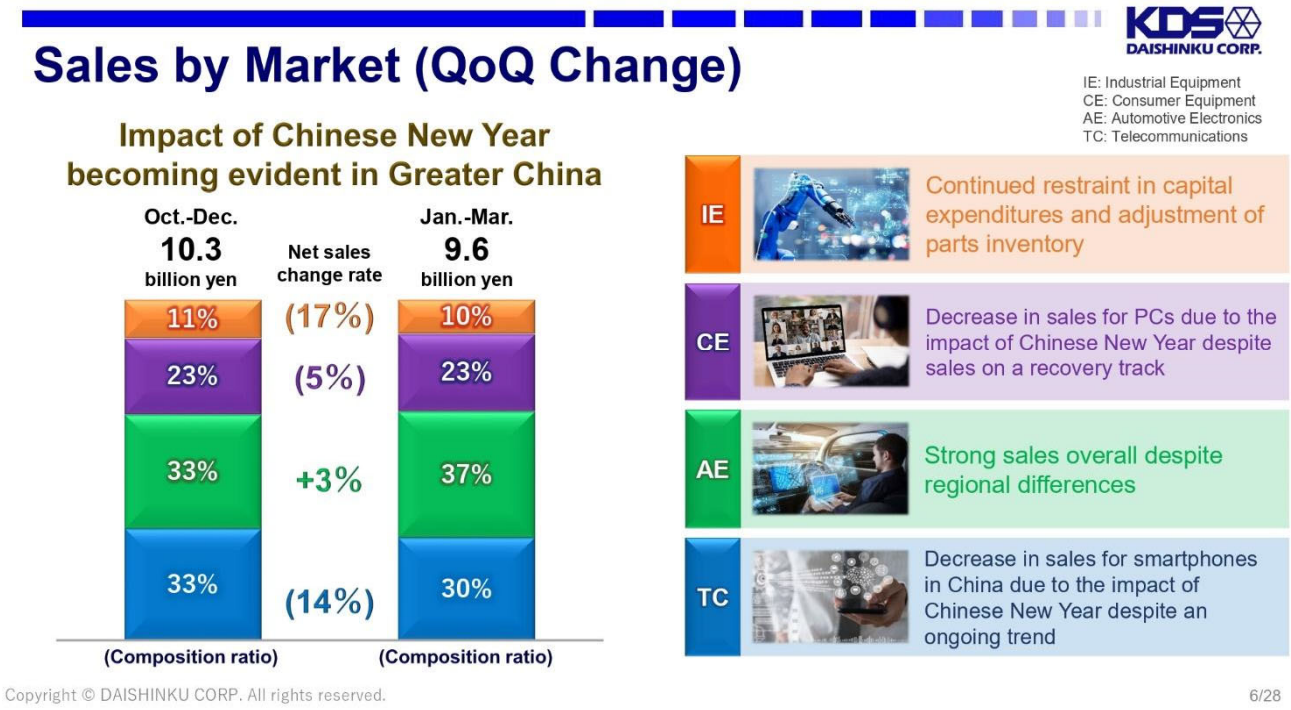
Lower revenues and Higher profits

Unit : Million yen	FY2024 Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	QoQ Change Increase/Decrease
Net sales	9,318	10,014	10,353	9,658	(695) ↓
Operating profit	518	383	585	649	64 ↑
Ordinary profit	1,052	925	(117)	1,332	1,449 ↑
Profit attributable to owners of parent	439	952	(234)	719	953 ↑

5/28

These are the quarterly results. In Q4, sales decreased but profit increased. Net sales were JPY9.658 billion, and the reportable profit items from operating profit and below increased compared to the previous quarter due to forex effects, etc. Operating profit was JPY649 million, ordinary profit was JPY1.332 billion, and net profit was JPY719 million.

Sales by Market (QoQ Change)

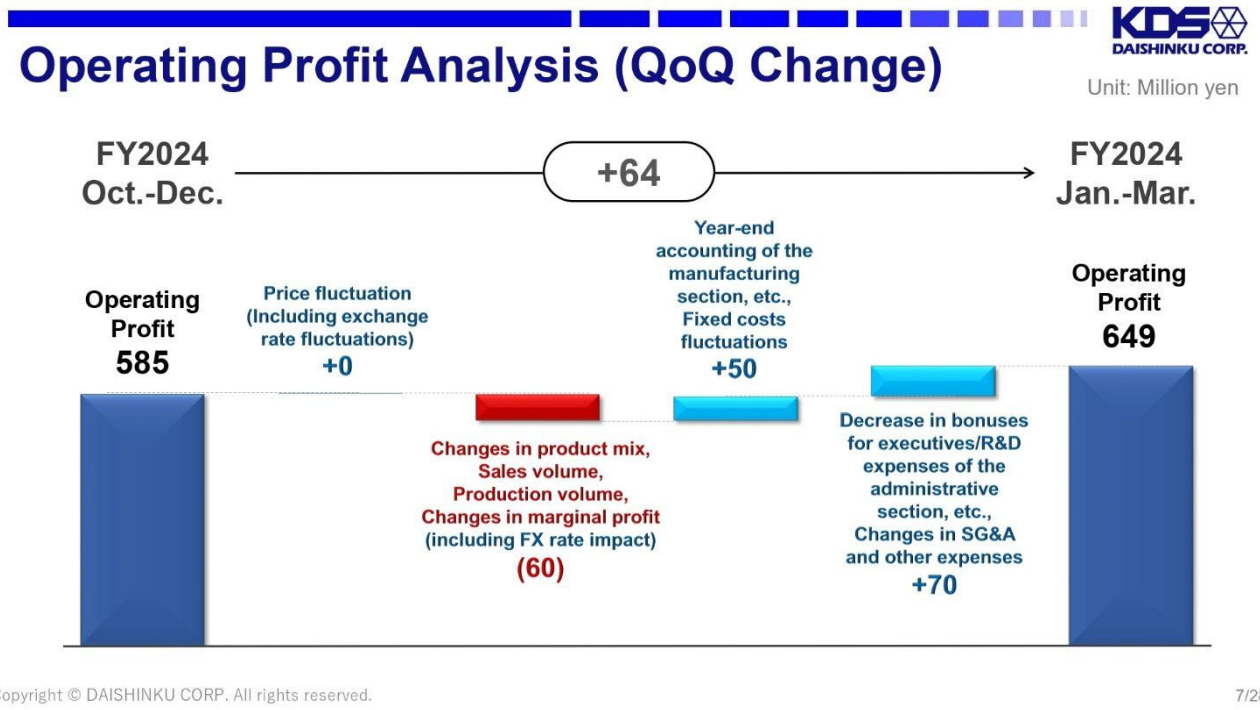


Here are the sales results by market. For industrial equipment market, demand continued to slump, resulting in a 17% decrease compared to the previous quarter.

For consumer equipment and telecommunications market, there were impacts from the Chinese New Year, leading to a 5% decrease in consumer equipment market and a 14% decrease in telecommunications market compared to the previous quarter.

For automotive electronics market, despite regional differences, overall performance was steady, resulting in a 3% increase compared to the previous quarter.

Operating Profit Analysis (QoQ Change)

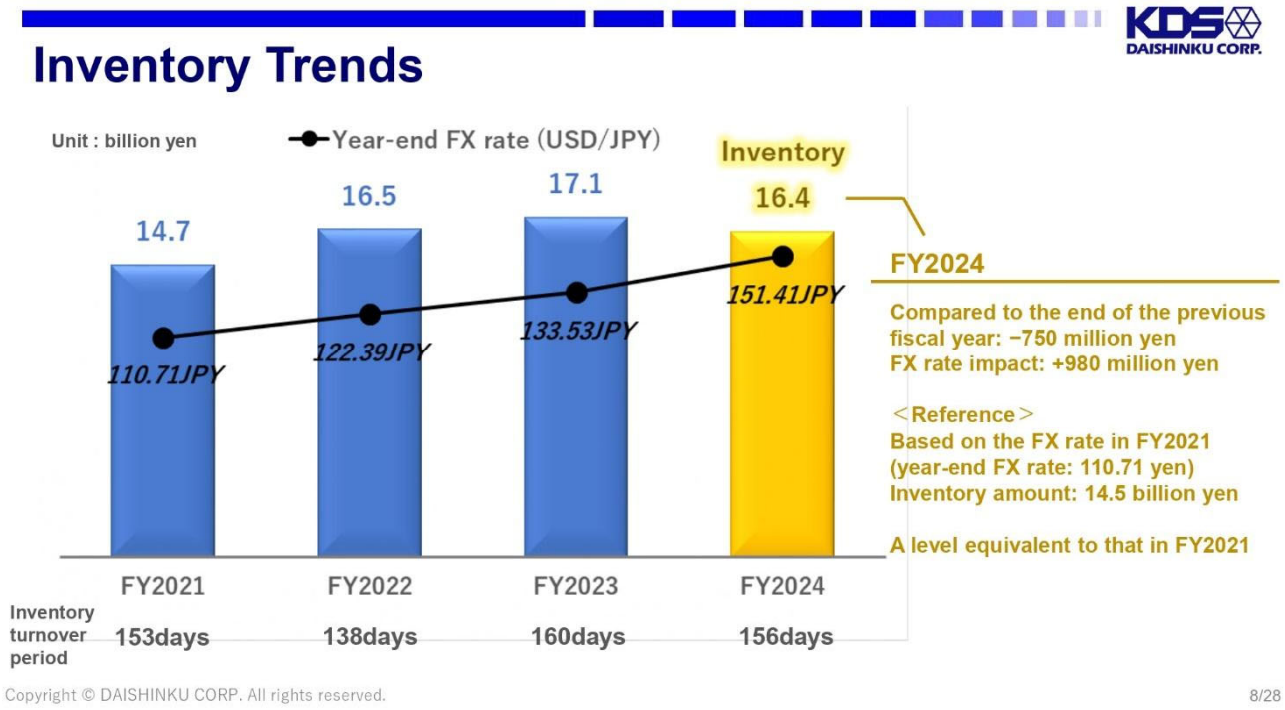


This is the analysis of operating profit changes compared to the previous quarter. Price fluctuations, including FX rate impact, were minimal. Operational adjustments continued, and with the decrease in sales volume, the change in marginal profit was a decrease of JPY60 million.

Fixed costs increased by JPY50 million due to year-end accounting processes, and SG&A expenses decreased by JPY70 million due to reduced R&D expenses.

As a result, operating profit increased by JPY649 million compared to the previous quarter.

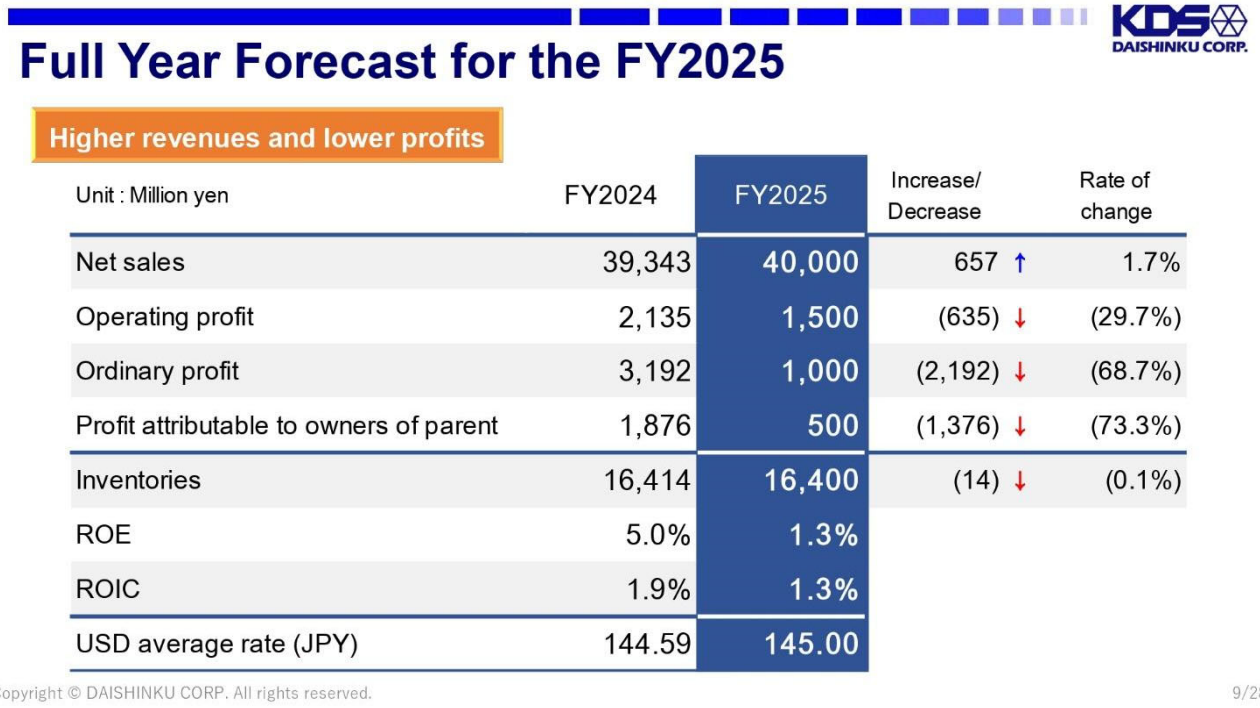
Inventory Trends



Here are the inventory trends. Due to operational adjustments in FY2024, inventory, including FX rate impact of JPY980 million, resulted in JPY16.4 billion.

Considering the forex level of FY2021, inventory can be estimated at JPY14.5 billion, which is nearly the same as FY2021. We believe we have managed to reduce inventory as planned.

Full-Year Forecast for FY2025



Full Year Forecast for the FY2025

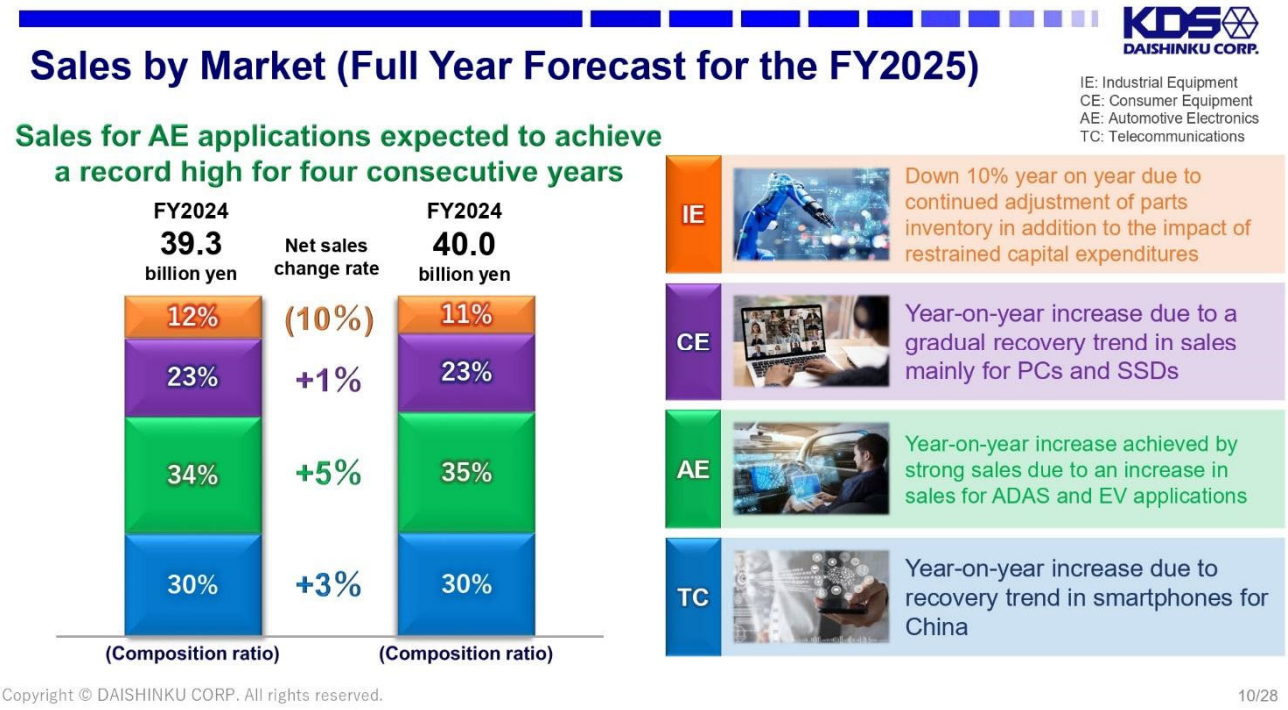
Higher revenues and lower profits

Unit : Million yen	FY2024	FY2025	Increase/ Decrease	Rate of change
Net sales	39,343	40,000	657 ↑	1.7%
Operating profit	2,135	1,500	(635) ↓	(29.7%)
Ordinary profit	3,192	1,000	(2,192) ↓	(68.7%)
Profit attributable to owners of parent	1,876	500	(1,376) ↓	(73.3%)
Inventories	16,414	16,400	(14) ↓	(0.1%)
ROE	5.0%	1.3%		
ROIC	1.9%	1.3%		
USD average rate (JPY)	144.59	145.00		

Here is the full year forecast for FY2025. We plan for net sales of JPY40 billion, operating profit of JPY1.5 billion, ordinary profit of JPY1 billion, and profit attributable to owners of parent of JPY500 million. Inventory levels are expected to remain the same as the previous fiscal year, with an exchange rate assumption of JPY145 per USD.

We anticipate an increase in sales but a decrease in profit.

Sales by Market (Full Year Forecast for the FY2025)



Here is the sales plan by market. For industrial equipment market, we plan a 10% decrease YoY due to ongoing inventory adjustments of parts.

For consumer equipment market, we anticipate a gradual recovery centered on PCs and SSDs, with a 1% increase YoY.

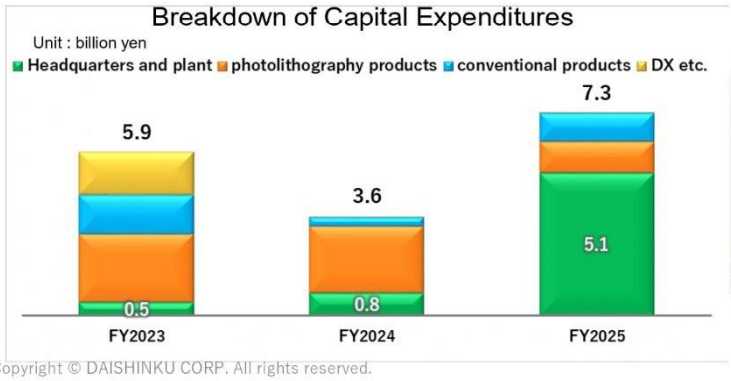
For automotive electronics market, we expect strong performance in ADAS and EV applications, planning a 5% increase YoY. This will mark the fourth consecutive year of record high sales.

For telecommunications market, with the recovery of Chinese smartphones, we plan a 3% increase YoY.

Capital Expenditures / Depreciation / R&D Expenses

Capital Expenditures/Depreciation/R&D Expenses

Unit : Million yen	FY2023	FY2024	FY2025	Increase/ Decrease
Capital Expenditures	5,913	3,613	**7,300**	3,687
Depreciation	3,993	3,941	**4,500**	559
R&D Expenses	2,205	2,170	**2,500**	330



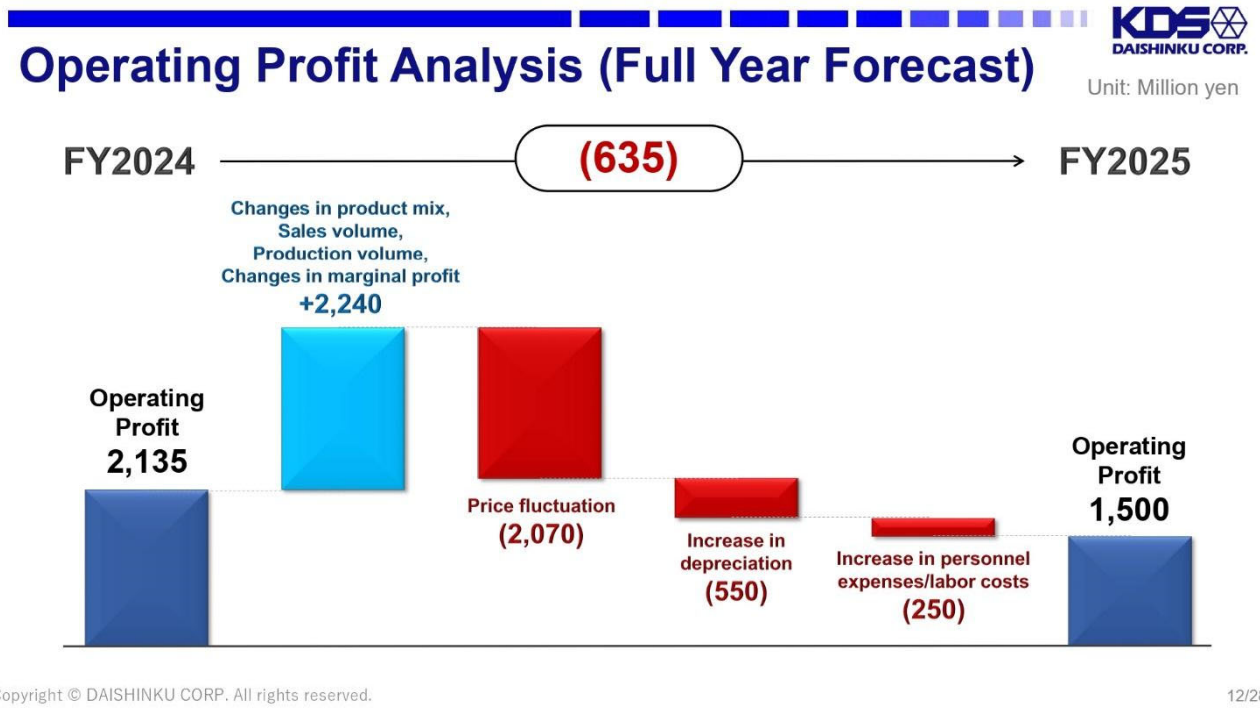
Headquarters and Plant
(under construction)

11/28

Regarding capital expenditures, we plan JPY7.3 billion for FY2025, with depreciation costs of JPY4.5 billion and R&D expenses of JPY2.5 billion.

The breakdown of capital investment is shown in the bar graph on the slide. This August, we will complete the construction of our headquarters and plant, with an investment of JPY5.1 billion. Investments in production-related areas are planned to be lower than the previous year.

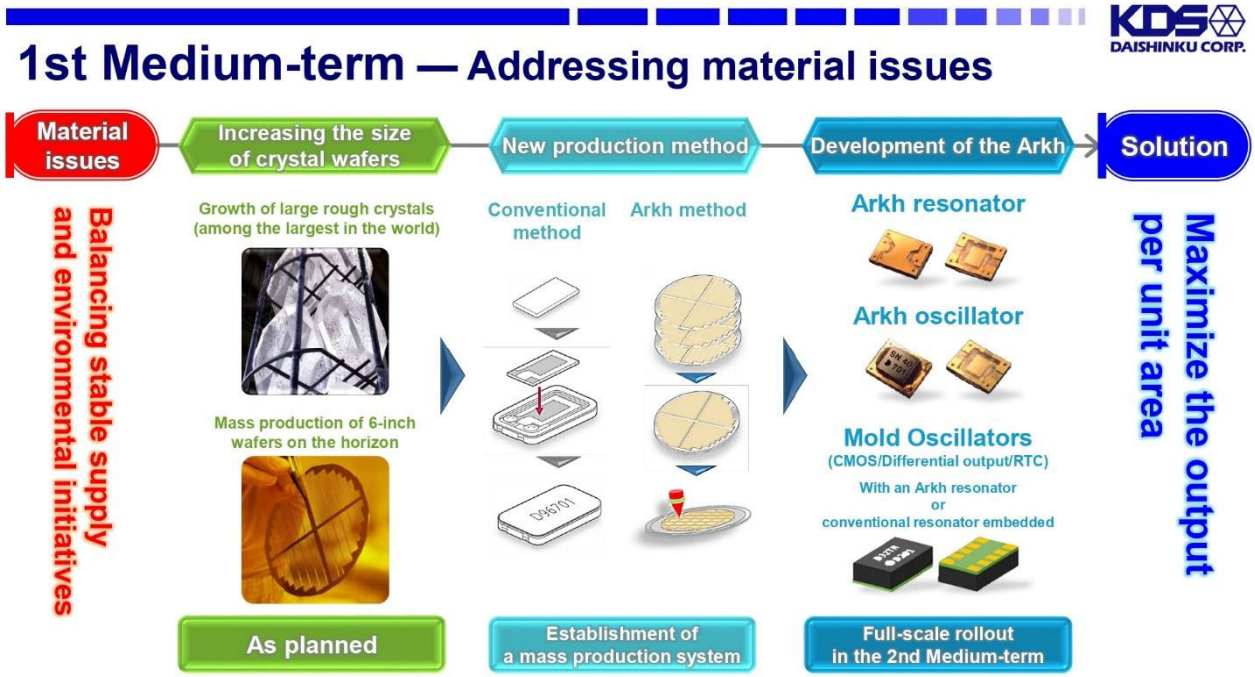
Operating Profit Analysis (Full-Year Forecast)



This is the operating profit analysis. For FY2024, operating profit was JPY2.135 billion. We anticipate a JPY2.24 billion increase in marginal profit due to increased sales and production volumes. However, we expect a JPY2.07 billion decrease mainly due to significant price fluctuations in the Chinese market. Additionally, we project increases in depreciation costs by JPY550 million and personnel/labor costs by JPY250 million.

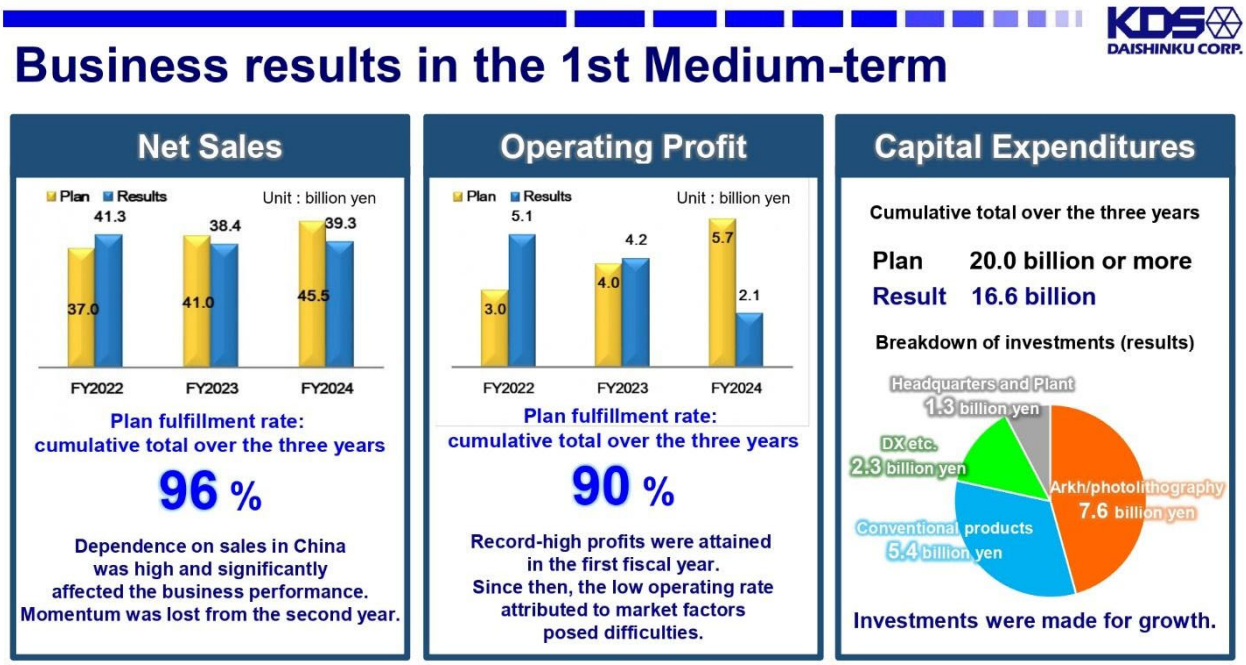
As a result, we plan for an operating profit of JPY1.5 billion for FY2025.

1st Medium-term — Addressing material issues



We are entering the second medium-term management plan from FY2024, so let me explain its content. In the first medium-term management plan, we focused on balancing stable supply and environmental initiatives. We worked on enlarging wafers, developing new production methods, and new product groups, all aimed at balancing stable supply and environmental initiatives. We spent considerable time preparing to switch to products and production methods that maximize output per unit area.

Business results in the 1st Medium-term



Here are the performance results of the first medium-term management plan. Net sales in FY2022 started strong at JPY41.3 billion, exceeding the plan. However, due to changes in the market environment, net sales were JPY38.4 billion in FY2023 and JPY39.3 billion in FY2024, falling short of the plan. The cumulative three-year plan achievement rate was 96%. One of the reflections is the high sales ratio to China, which significantly impacted performance and caused a slowdown from the second year onwards.

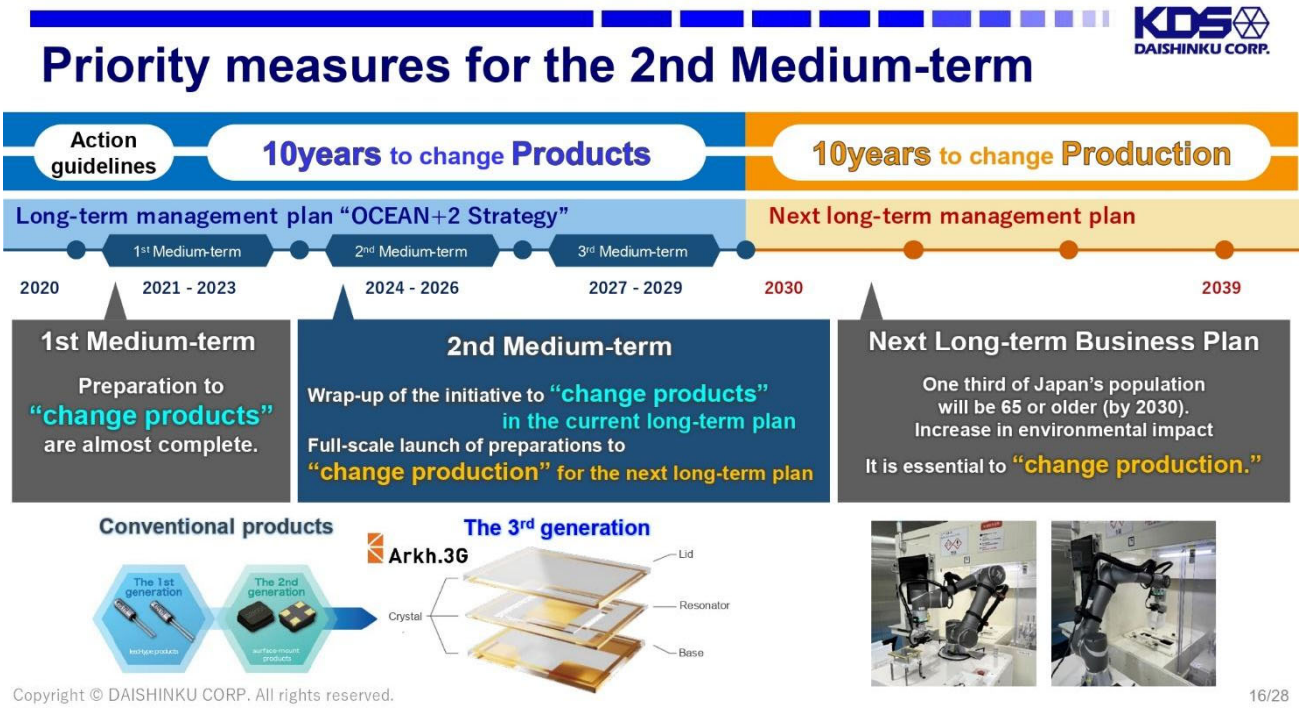
Regarding operating profit, we started at a record high of JPY5.1 billion in the first year due to increased sales. However, with the subsequent sales slump, the final year's performance fell short of the initial plan, with a cumulative three-year achievement rate of 90%.

For capital investment, we initially communicated a plan of over JPY20 billion, but we restrained investments in response to market changes. The actual result was JPY16.6 billion.

However, we carried out planned investments in the Arkh Series and photolithography processing, which will be core in the second and third medium-term management plans, while limiting investments in existing products.

We also invested JPY2.3 billion to replace our core systems as part of our DX initiatives. Additionally, JPY1.3 billion was invested in the first and second phase payments for the headquarters and plant.

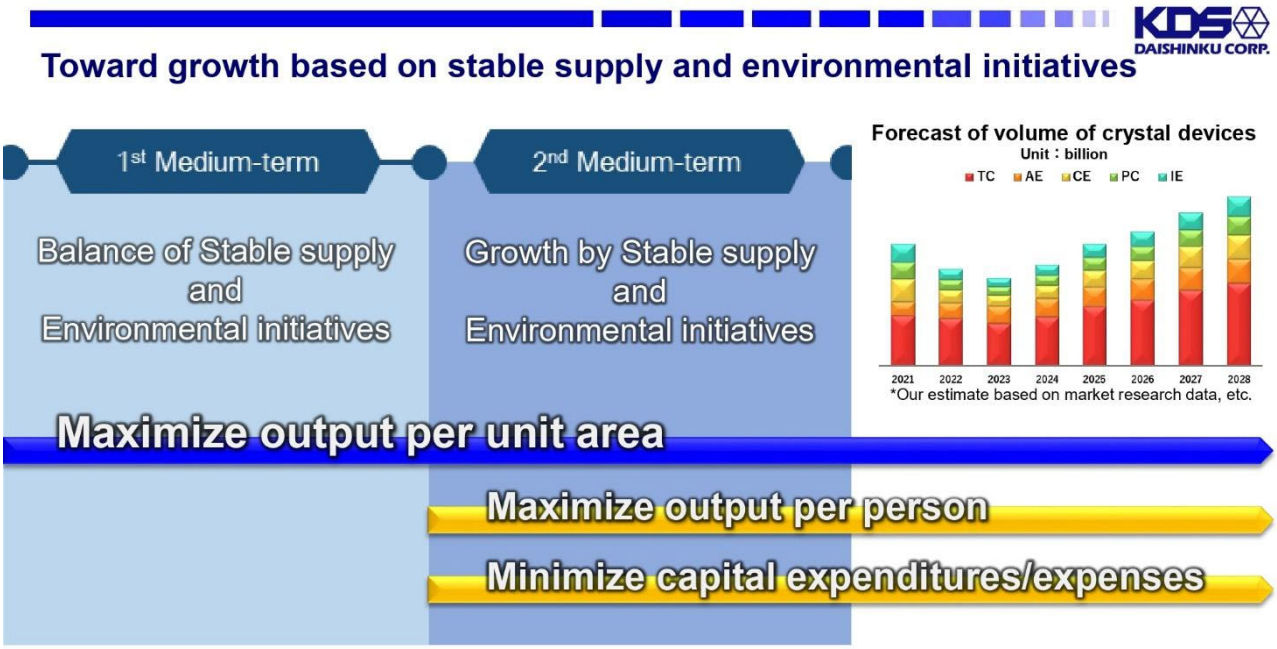
Priority measures for the 2nd Medium-term



These are the key policies of the second medium-term management plan. We position the long-term management plan as 10 years to change products, followed by the next 10 years as 10 years to change production in the next long-term management plan.

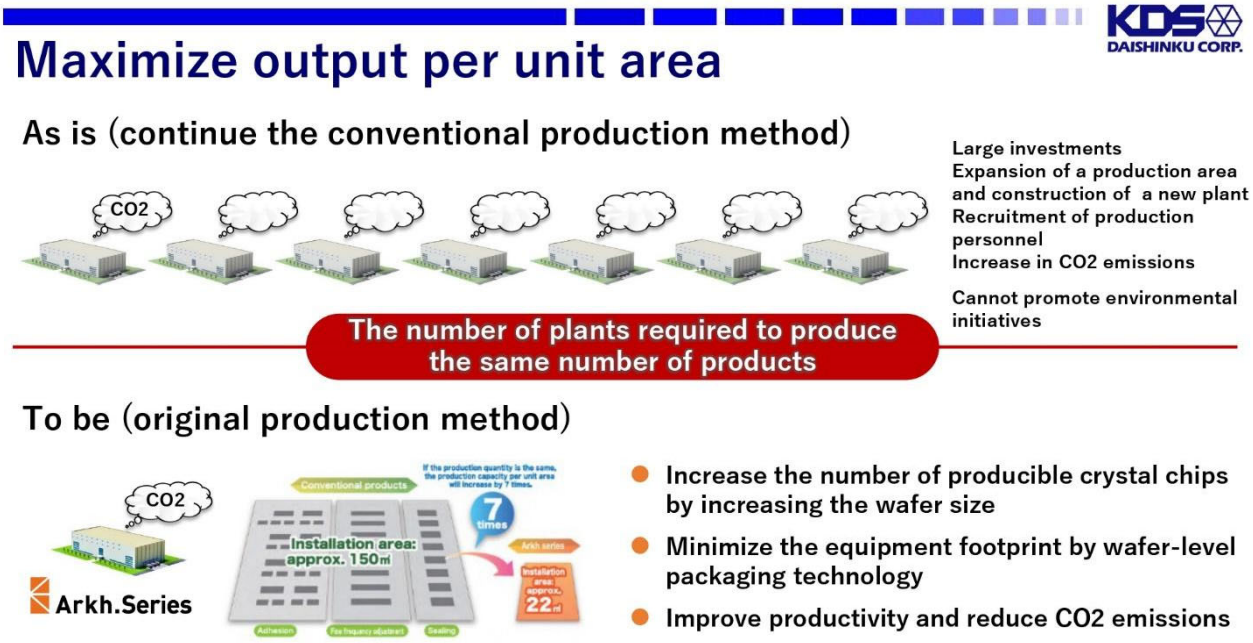
During the first medium-term management plan period, the preparations for changing products are nearly complete. In the second medium-term management plan, we will move on to reaping the benefits of changing products. Additionally, this period will be positioned as the time to start earnest preparations for changing production in the next long-term management plan.

Toward growth based on stable supply and environmental initiatives



We consider the second medium-term management plan to be a stage of growth by stable supply and environmental initiatives. So far, we have focused on developing production methods and products aimed at maximizing output per unit area. In addition to this, we are now aiming to maximize output per person and minimize capital investment and expenses to respond to the increasing quantity of crystal devices.

Maximize output per unit area

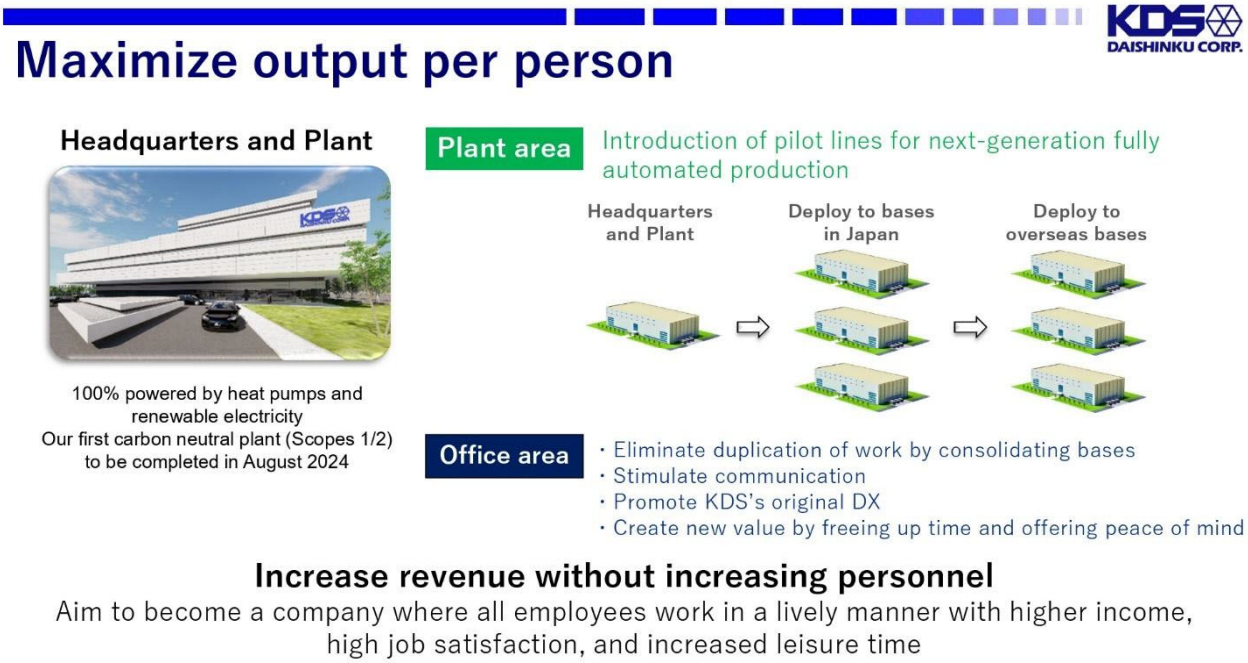


As mentioned before, if we continue producing the same products with the same methods, we would need more factories to handle the increasing volume of crystal devices. This would require more production personnel and increase CO_2 emissions, which is a disadvantage.

To counter this, we are working on the Arkh Series, which can increase output per unit area by 7 times, and other efforts to achieve 5 times the output of conventional products. These measures allow us to handle future volume increases without expanding our factories.

Increasing chip yield through larger wafers and minimizing equipment footprint with wafer-level packaging technology will naturally lead to improved productivity and reduced CO_2 emissions.

Maximize output per person

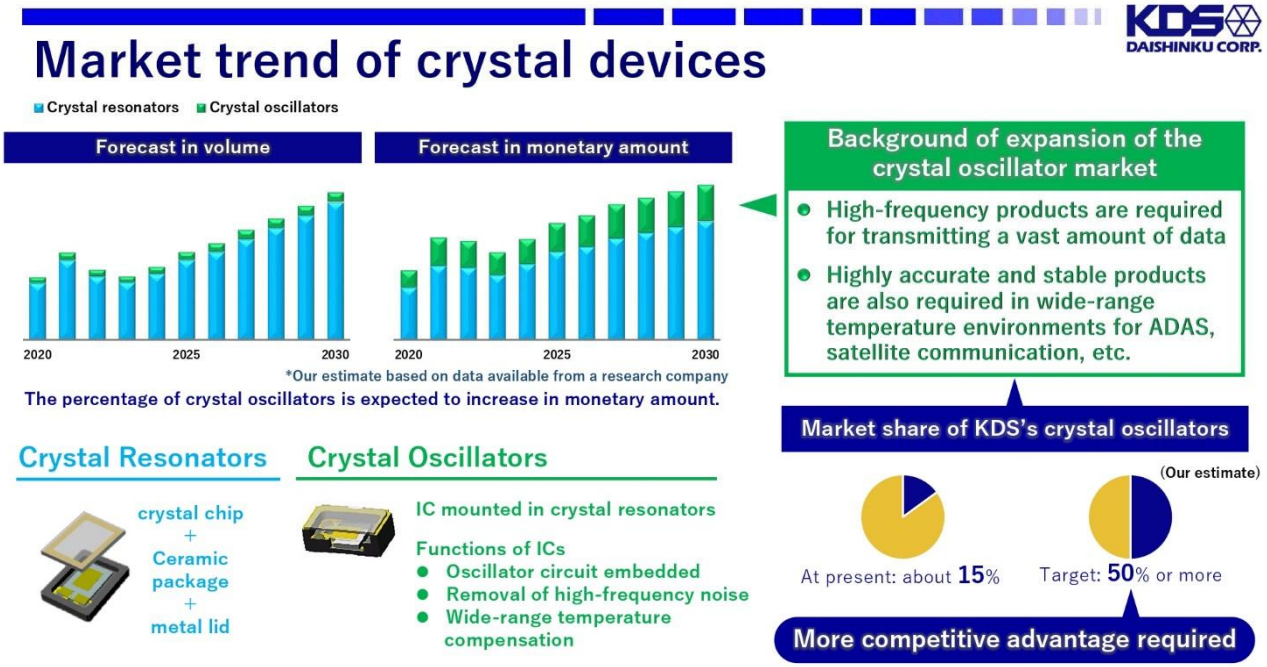


In the second medium-term management plan, we also aim to maximize output per person. As mentioned earlier, our headquarters and plant is scheduled for completion in August this year. It will be our first carbon-neutral factory, incorporating heat pumps and 100% environmentally-friendly electricity.

The plant area at the headquarters and plant will include a pilot line for next-generation fully automated production. We will use this pilot line to address complex system controls and expand it to domestic and international locations.

The office area will consolidate operations, eliminating duplicate work. Currently, our head office, logistics center, and central research institute are spread across four locations, which will be consolidated into a single building. This will enhance communication and, through full-scale DX implementation, increase sales without increasing personnel.

Market trend of crystal devices



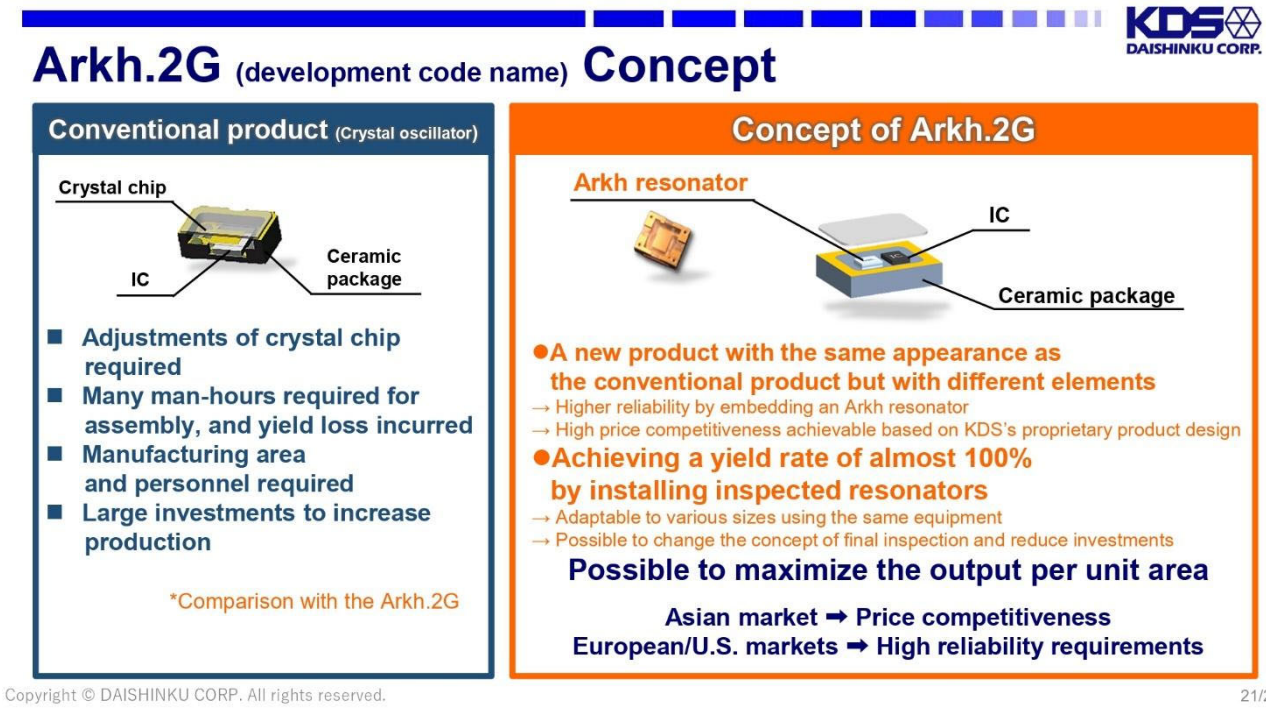
These are the market trends for crystal devices. The graph on the left shows quantity forecasts, while the one on the right shows monetary forecasts. The blue areas represent crystal resonators and the green areas represent crystal oscillators.

As you can see, the value of crystal oscillators is relatively large. The market for crystal oscillators is expected to require significant data transfer in the future, leading to a high demand for high-frequency products.

Moreover, automotive-related ADAS and satellite communications will require narrower frequency tolerances (frequency change due to temperature changes.) This need cannot be met by crystal resonators but will be addressed by crystal oscillators.

Currently, our market share for crystal oscillators is about 15%, but we aim to increase it to 50%. However, achieving a 50% share alone would be meaningless. We need to further enhance our competitive advantage in oscillators.

Arkh.2G (development code name) Concept



This is the concept for the development code name Arkh.2G. Traditional crystal oscillators require many production processes, as mentioned earlier. By replacing the internal crystal with the Arkh Series, we aim to increase output by 3 times to 5 times compared to conventional products.

The appearance of this product will be the same as conventional ones, making it appear as the same product to customers, thus being treated as a new product with only internal changes.

Additionally, by incorporating pre-tested resonators, the yield will be nearly 100%. Although the testing process is essential for increasing the production of crystal devices, it does not add value by itself. By developing products like Arkh.2G, we plan to introduce new methods that differ from the traditional approach of always conducting final inspections in-house.

As a result, we are hurrying to release products with new competitive advantages: price competitiveness in the Asian market and high reliability in the European and American markets.

Outlook of the 2nd Medium-term for the Arkh series

In the first medium-term management plan, we prepared various products, and this slide outlines the outlook for the second medium-term management plan.

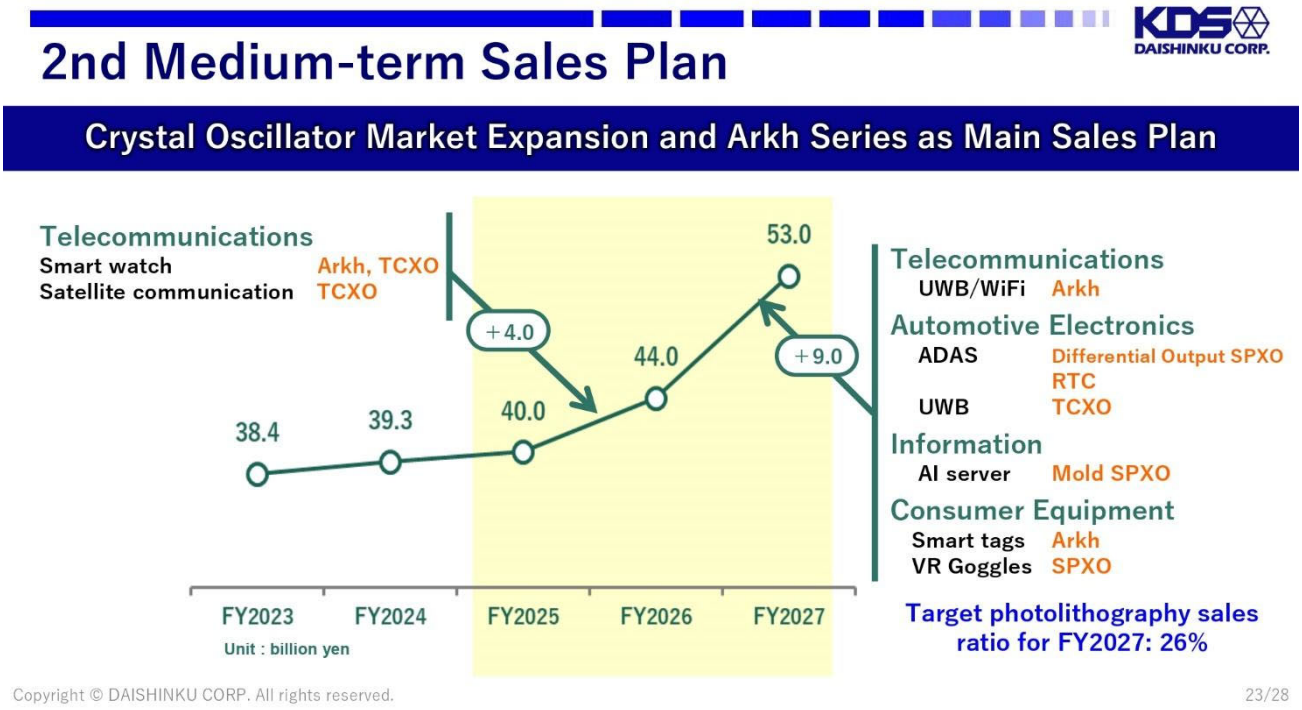
First, we have the mold oscillator, which has been adopted by automotive manufacturers and is currently in mass production. Next, we aim to target the automotive market with the Arkh.2G that was explained earlier.

Furthermore, the new technology of semiconductor chiplets is gaining attention. This concept involves dividing various functions of the IC into separate parts made in different semiconductor plants and then reassembling them into one device.

Given that the Arkh Series shares a similar concept of IC integration, we see potential business opportunities expanding.

For high-frequency oscillators, sample evaluations are progressing smoothly. The frequencies range from 150 MHz to 300 MHz and 600 MHz, and sample evaluations are advancing well.

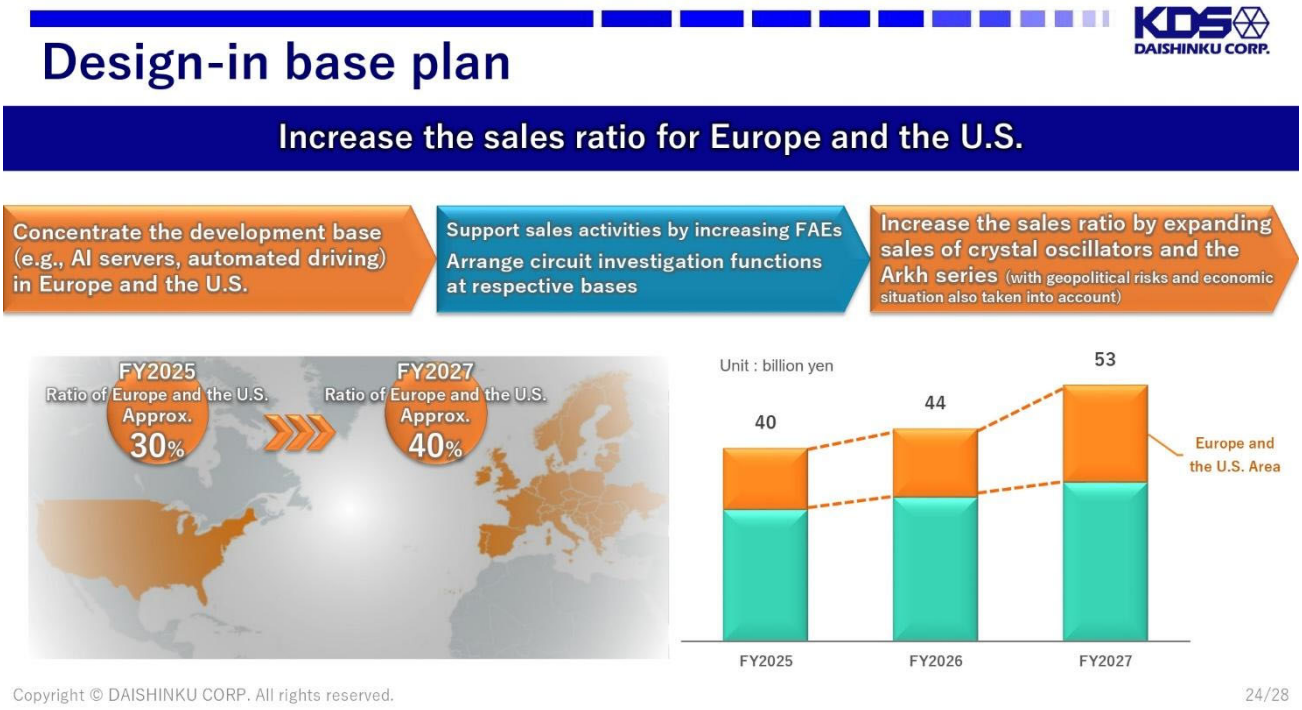
2nd Medium-term Sales Plan



Here is the sales plan under the second medium-term management plan. For FY2025, our 62nd fiscal year, we plan sales of JPY40 billion, JPY44 billion for FY2026, a JPY4 billion increase YoY. By FY2027, we plan to reach JPY53 billion, a JPY9 billion increase YoY.

This plan mainly includes the Arkh Series, oscillators with the Arkh Series embedded, and conventional oscillators.

Design-in base plan



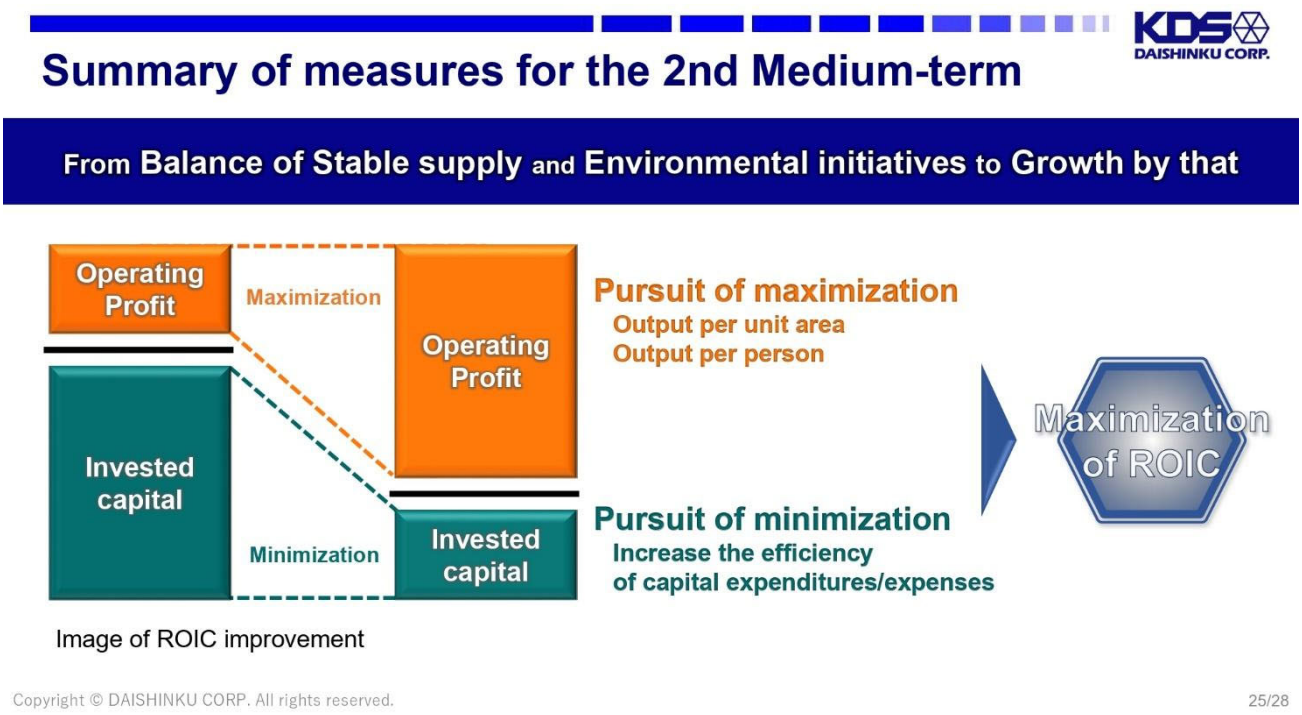
The most crucial aspect of the second medium-term management plan is the sales amount. Achieving the planned amount is key to the plan's success. In the first medium-term management plan, the high ratio of sales to China was a point of reflection.

Therefore, the target is to increase the European and American ratio from about 30% in FY2025 to 40% by FY2027, using various methods.

Our targets are AI servers and autonomous driving. Since these development bases are mainly concentrated in the European and American areas, our main approach is to target these development bases.

Additionally, we plan to enhance our sales technology by increasing the number of members, providing more technical support for sales. Through these efforts, we aim to increase our market share for crystal oscillators.

Summary of measures for the 2nd Medium-term



As a summary of the measures in the second medium-term management plan, the goal is to maximize operating income by maximizing output per unit area and per person.

If output increases from 40 million units per month to 200 million units per month, manufacturing costs will significantly decrease, leading to cost competitiveness.

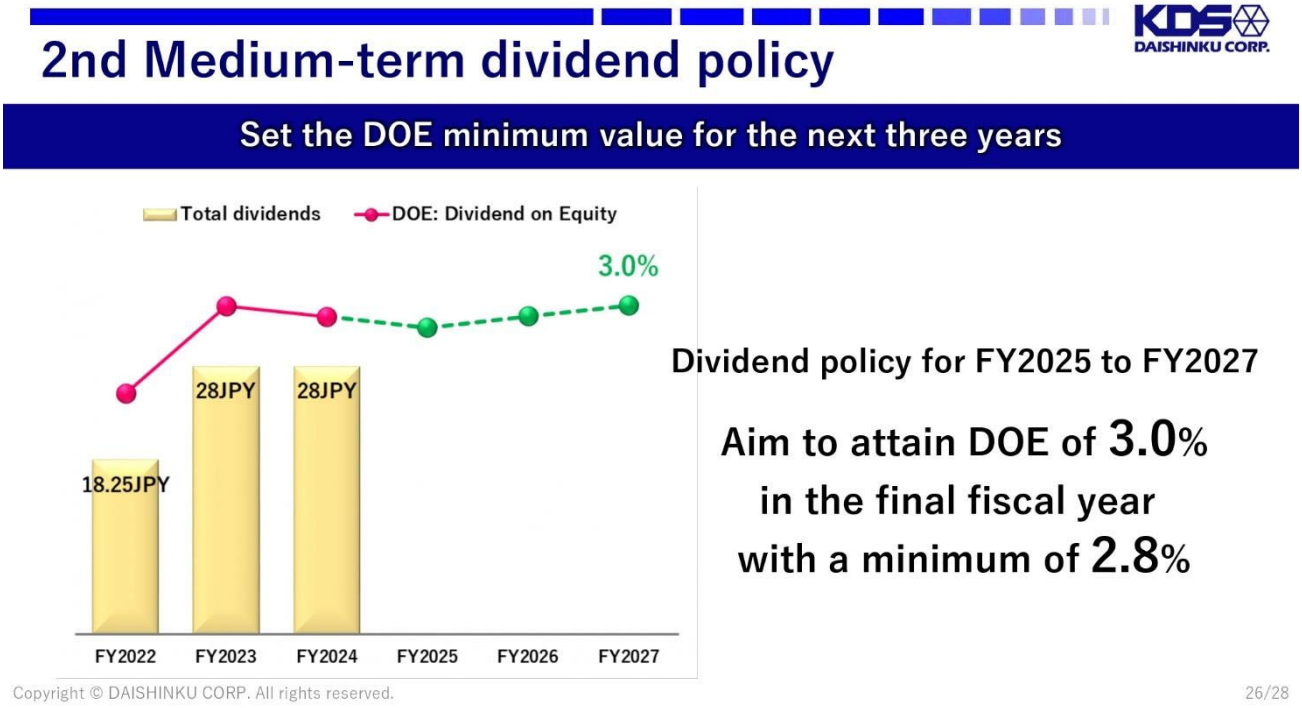
Furthermore, by increasing sales fivefold without increasing indirect personnel, we can dilute SG&A expenses. By pursuing these maximizations, we believe we can maximize operating profit.

In the first medium-term management plan, we made investments for the future. However, moving forward, we must optimize investment efficiency, minimizing invested capital.

All of these efforts are designed to handle future volume increases while controlling capital investment better than our competitors. We will continue to reduce and streamline investments.

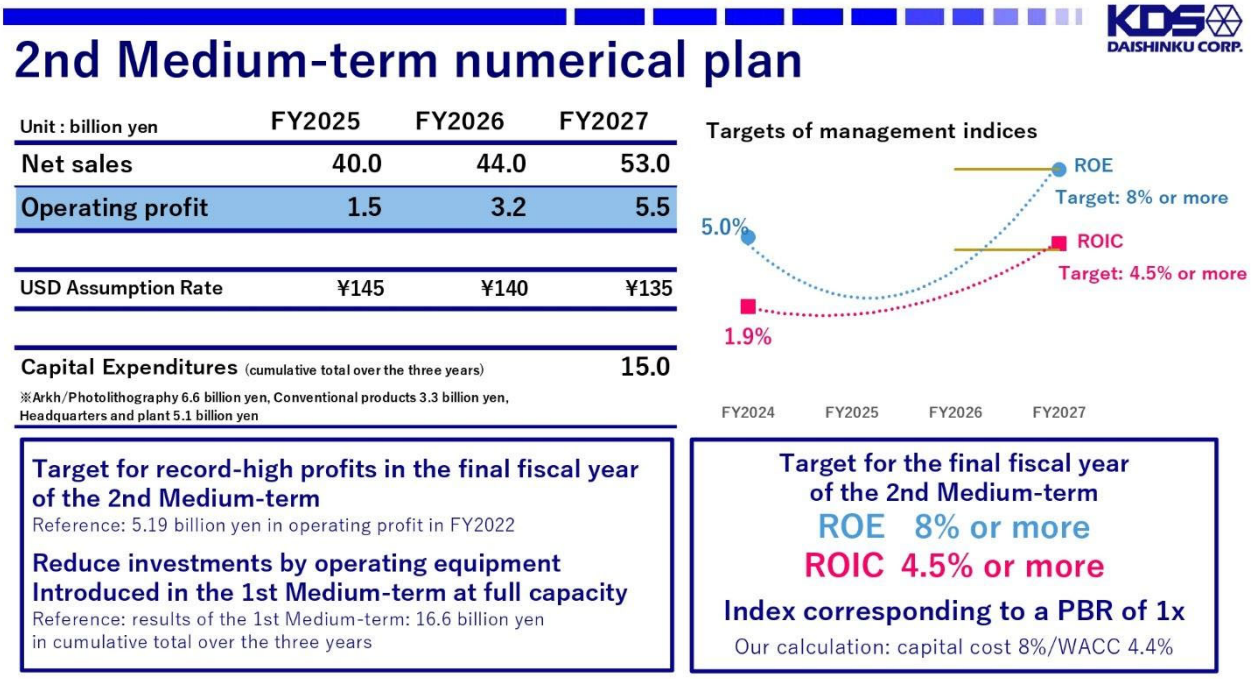
In other words, we believe this enables maximization of ROIC and leads to “maximization of ROIC = PBR of 1x or more.

2nd Medium-term dividend policy



The dividend policy under the second medium-term management plan will use DOE as an indicator. For this three-year medium-term management plan, we have set a minimum DOE of 2.8%. We aim for 3% in the final year. When announcing future medium-term management plans, we will also announce the minimum DOE values.

2nd Medium-term numerical plan



Here is the summary of the numerical plan for the second medium-term management plan. Net sales are projected to be JPY40 billion for FY2025, JPY44 billion for FY2026, and JPY53 billion for FY2027. Operating profit is planned to be JPY1.5 billion for FY2025, JPY3.2 billion for FY2026, and JPY5.5 billion for FY2027. As our past record high operating profit is JPY5.19 billion, we aim to surpass this in the third year.

For the exchange rate, we set JPY145 per USD for the first year. Although medium-term plans usually maintain a constant rate, we do not expect the current exchange rate to persist, so we have set JPY145, JPY140, and JPY135 for the successive years.

Capital investment is planned to total JPY15 billion over the three years. Of this, JPY5.1 billion is allocated for the headquarters and plant, with regular investments planned to be around JPY10 billion.

The targets for the final year of the second medium-term management plan include an ROE of over 8% and an ROIC of over 4.5% to align with a P/B ratio of 1x. Currently, we estimate our capital cost at approximately 8% and our WACC at around 4.4%, hence these targets.

That concludes the explanation. Thank you for your attention.

Q&A: Exchange Rate Impact, FY2025 Assumptions, and Future Operational Changes

Participant: I have a question about the operating profit variation analysis. How much was the positive impact from price fluctuations due to exchange rate changes in FY2024? Also, for FY2025, you are predicting a JPY2.07 billion negative price fluctuation, mostly due to price changes in China. Could you elaborate on the specific applications affected?

Additionally, you mentioned that production volume was a negative factor in FY2024 but is expected to turn positive in FY2025. How will operations change?

Iizuka: Regarding the exchange rate impact, the effect in FY2024 was about JPY1.6 billion, which was a positive factor. The exchange rate settings for last fiscal year and this fiscal year are almost the same.

As for applications, most of the price fluctuations in China relate to telecommunications market. We anticipate significant price impacts for TCXOs, thermistor-equipped resonators, and small tuning fork resonators.

The operating rate was just under 70% for FY2024, and we are planning for it to be in the mid-70% range for FY2025.

Participant: To confirm, despite a JPY2.6 billion price impact in FY2024, which amounts to an underlying change of about JPY4.2 billion, you are expecting price fluctuations to settle at JPY2.07 billion in FY2025?

Iizuka: That's correct.

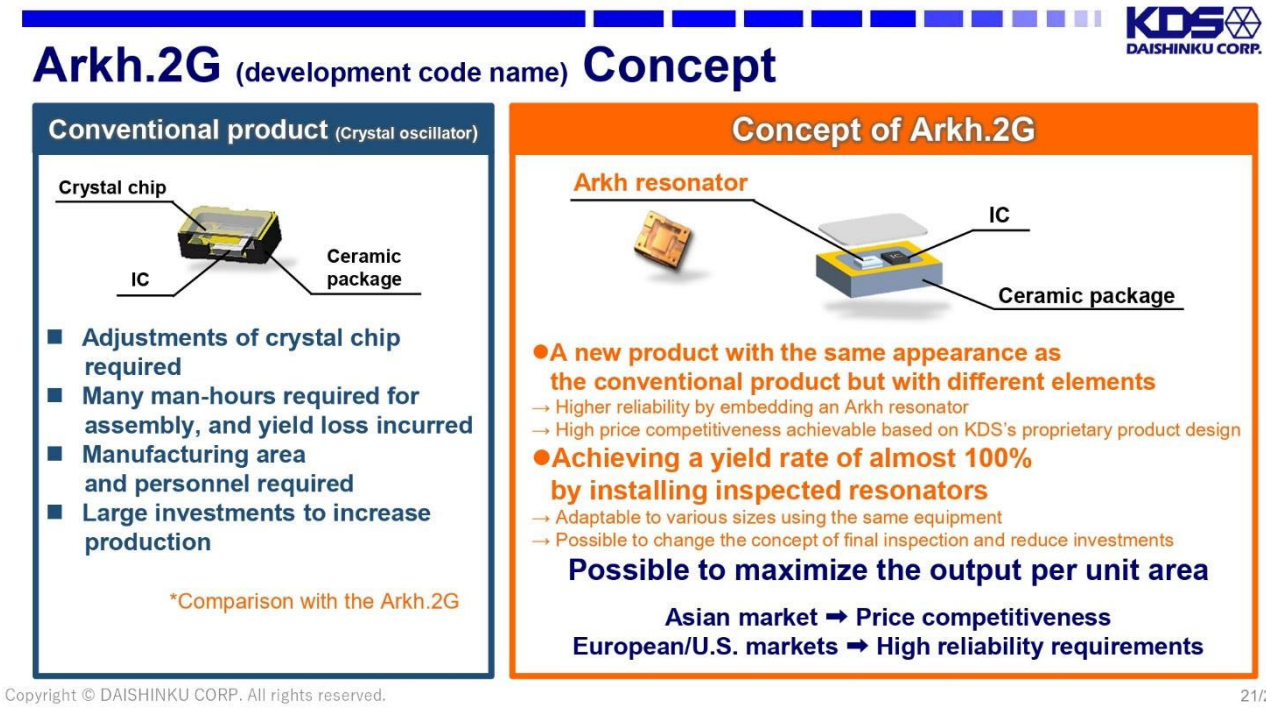
Participant: You mentioned that there are strains in TCXOs for telecommunications market. Given that there is a price impact of JPY2.1 billion expected in FY2025, is this a conservative estimate, or is it based on actual observations?

Iizuka: Our current perception is as stated. However, the mid-70% operating rate applies to the overall average. For TCXOs and oscillators, operations are already at 100%, and we are considering how to increase capacity further.

Regarding TCXOs, Chinese competitors invested before the COVID-19 pandemic. With increased usage of TCXOs, their primary strategy is to source components domestically in China, which affects our pricing.

To avoid losing orders, we have had to lower prices to match theirs. However, their performance often does not meet customer requirements, so we are receiving more orders than planned, resulting in increased quantities.

Q&A: Features and Current Yield/Productivity of the Arkh Oscillator



Participant: Regarding the Arkh.2G concept, you mentioned that replacing standard crystal blanks with Arkh oscillators would increase output by 3 times to 5 times.

What exactly is different about the Arkh oscillator compared to standard crystal blanks? Could you explain whether the yield and productivity are currently the same as for standard blanks, and if the equipment is sufficient?

Iizuka: Standard blanks are made from a single piece of quartz. Traditionally, quartz is mounted on a ceramic package using conductive adhesive. After mounting, each unit undergoes frequency adjustment. Since this process is done one by one, the equipment is very large, with a production capacity of about 4 million units to 5 million units per line.

In contrast, the Arkh.2G concept involves stacking three wafers together in the wafer state. Each unit still undergoes frequency adjustment, but because it's done in the wafer state, it's not a one-by-one production process. As a result, the output is about seven times higher than that of conventional products.

For finished products housed in ceramic packages, only the connection process for mounting is needed, followed by sealing. Therefore, there is no frequency adjustment process required.

Additionally, small conventional products require precise adjustments when mounting quartz oscillators directly with conductive adhesive on ceramic packages, which makes production challenging.

However, with the Arkh.2G, the mounting of Arkh oscillators can be done roughly without any issues. This means that the machine's cycle time can be easily increased, resulting in the mentioned 3 times to 5 times output increase.

We haven't built dedicated machines yet, but with them, the output could increase even more.

Q&A: Expected Sales Timing for Each Application

Participant: In the previous briefing, you mentioned that telecommunications companies, smartphone manufacturers, and automotive manufacturers had visited to see the Arkh Series.

Based on slide 22, I believe that the timing for sales in telecommunications and automotive electronics market is becoming clearer. Could you provide an outlook on the timing for each application?

Hasegawa: As of now, the earliest visible sales timing is expected to begin gradually in FY2026 at the earliest, with significant sales growth anticipated in FY2027.

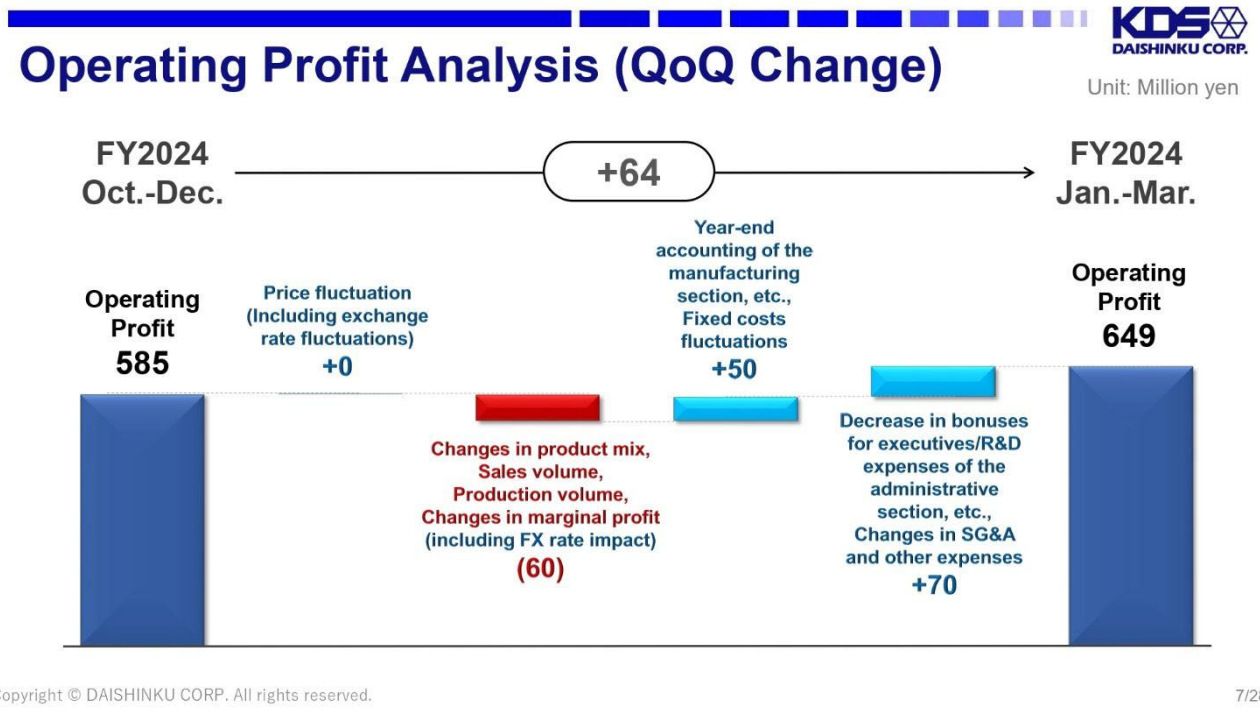
Participant: What applications are these for?

Hasegawa: While we are considering various applications, telecommunication-related market seem to be the most prominent.

Participant: So, focusing on telecommunications market, sales are expected to grow further in FY2027?

Hasegawa: That's correct.

Q&A: Comparison of Operating Profit Levels in Q4 FY2024 and Profit Plan for FY2025



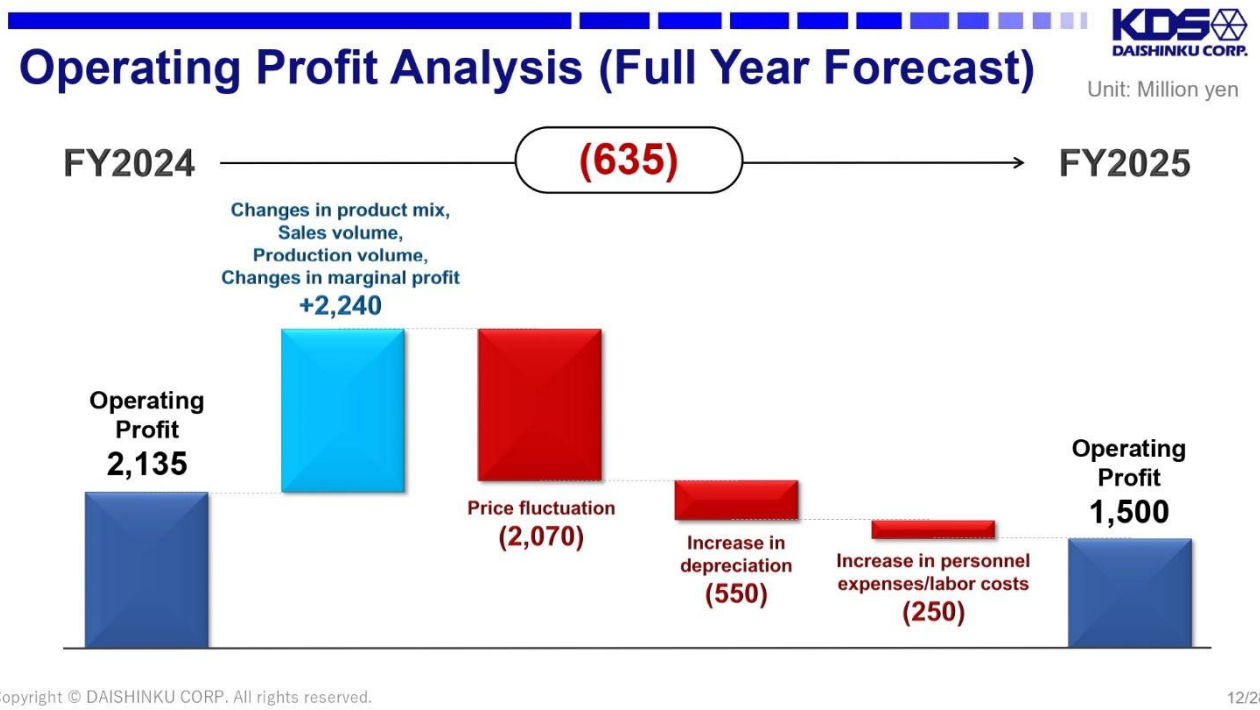
Participant: I'd like to compare the operating profit level in Q4 FY2024 with the profit plan for FY2025. In Q4 FY2024, operating profit was about JPY600 million. There was a graph showing that price impacts were nearly negligible in the analysis of the quarterly fluctuations.

Based on that, multiplying JPY600 million by four quarters would result in JPY2.4 billion for the full year. However, the operating profit plan for FY2025 is JPY1.5 billion, which suggests additional negative factors. Could you explain more about the full-year operating profit plan of JPY1.5 billion?

Iizuka: The operating profit of JPY649 million for Q4 FY2024 was an increase from Q3. As I explained earlier, there was almost no price fluctuation impact, including FX rate impact, but there was a JPY88 million positive impact from FX rate.

Additionally, year-end accounting adjustments and reductions in R&D expenses added JPY120 million as positive factors, totaling about JPY200 million, which is above the underlying strength of our performance.

Although this may seem too small, we have assumed “600 million yen - 200 million yen = 400 million yen, 400 million yen x 4 periods = 1.6 billion yen.”



Regarding other factors, as shown on slide 12, we expect depreciation to increase by about JPY550 million. This includes the start of operations for past investments and depreciation for the headquarters factory.

Additionally, we anticipate an increase in personnel and labor costs by JPY250 million. You might think that subtracting these would result in less than JPY1 billion, but we expect an increase in marginal profit due to higher production volumes and improved operating rates, leading to an operating profit plan of JPY1.5 billion.

Q&A: Changes in Recent Order Status

Participant: Regarding changes in recent order status, the FY2025 plan is JPY40 billion for the full year, which, divided by four, gives JPY10 billion per quarter. This level is not much different from Q3 and Q4. Could you tell us if there have been any changes in recent order status compared to this level?

Iizuka: Oscillators are showing positive trends. Orders for thermistor-equipped resonators, particularly from our Taiwanese subsidiary, Harmony Electronics, are slightly weaker than planned.

Industrial oscillators are experiencing weaker orders as the actual order status significantly differs from what customers had initially indicated.

To compensate for this, we are aiming to maintain the operating rate by shifting the production lines for industrial oscillators to TCXOs and automotive oscillators, thereby achieving our profit plan.

Q&A: Discrepancies Between Initial Medium-Term Plan and Current Profit Levels

Participant: Compared to when the medium-term management plan was announced, I believe the current profit levels are lower. I think the target setting, including the photolithography sales ratio, was higher. Could you explain the reasons behind this discrepancy?

Additionally, the adoption and spread of Arkh products seem to be slower than anticipated. Could you also provide some background on this?

Iizuka: The reason the profits in the first medium-term management plan did not meet the targets boils down to missing our sales goals. The initial sales plan for the first year was JPY37 billion, but we achieved JPY41.2 billion, which was too high.

As you know, there was a talk about a shortage of quartz across all sectors—consumer equipment, telecommunications, automotive electronics, and industrial equipment —leading to significant stockpiling of parts by companies.

In the first year, we received many orders from various companies, which threw everything off balance. Under normal ordering conditions without the impact of the COVID-19 pandemic, we would have generally stayed on track with our plan.

Furthermore, the shortage of automotive semiconductors was a major miscalculation. Our unique challenge was the high proportion of the Chinese market. The Chinese economy's recovery was slower than expected, leading to more part stockpiling than we anticipated.

Additionally, for industrial equipment market, although the lead times are very long, by the midpoint of the first medium management plan, our industrial customers were saying everything was fine.

However, a significant adjustment occurred at the last minute, and this adjustment will continue into FY2025. This situation was like a final blow.

Participant: Despite efforts to differentiate products like Arkh and enhance added value, significant fluctuations in market supply and demand and inventory cycles created price pressures, hitting products like Arkh and lowering profit levels. Is this what caused the discrepancies?

Iizuka: What we most desire with the Arkh Series is IC integration. This concept has been around since the middle of the first medium-term management plan, and we had samples out. However, when the semiconductor shortage emerged, the relationship between China and the US and the locations of semiconductor factories became issues.

Moreover, as I mentioned earlier about chiplets, the yield of semiconductors was worse than traditional products, and we needed to improve this. Although we intended to integrate them, progress was slow and frustrating.

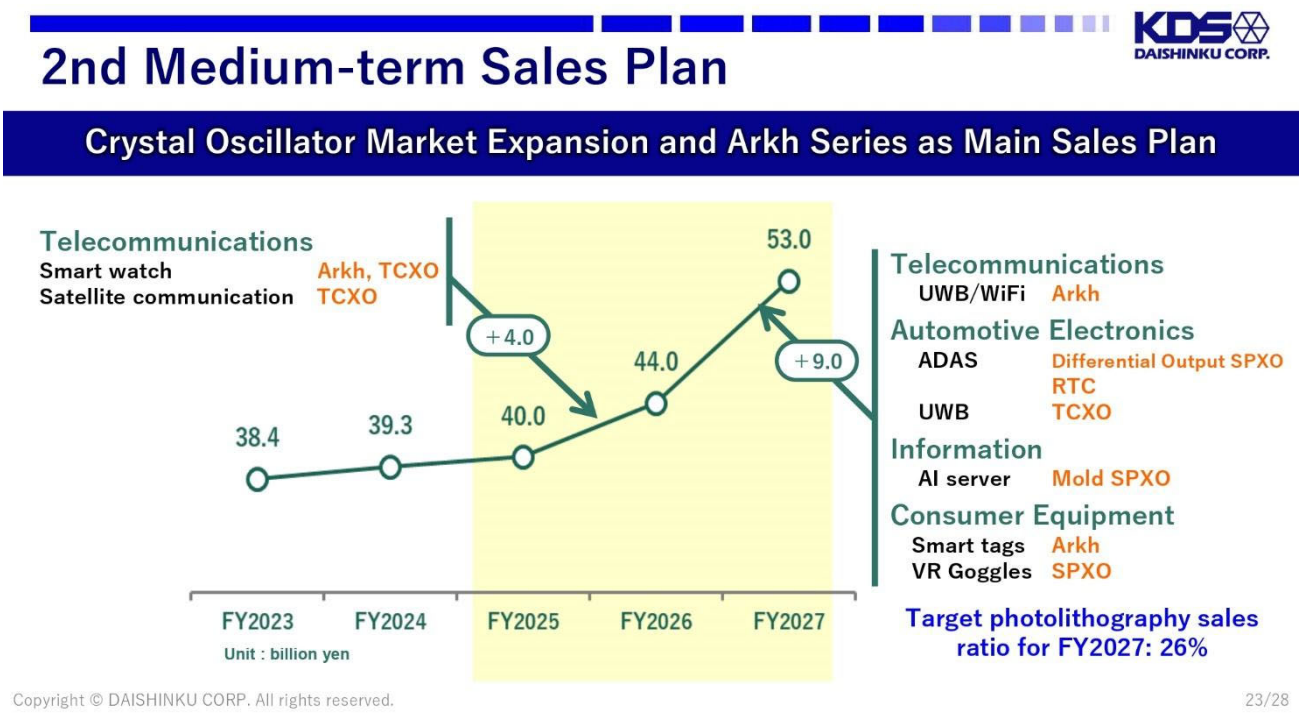
While the evaluation of Arkh alone is progressing, we did not reach mass production for IC integration in the first medium-term management plan. In the second medium-term management plan, we are unsure how the situation will change, as it's beyond our control.

That said, abandoning the Arkh Series would not be wise. Arkh.2G, which leverages the benefits of the Arkh Series, steps back to incorporate ceramic packaging.

From the customer's perspective, it is the same as conventional products, allowing seamless implementation onto boards without issues. We need to promote this kind of utilization.

Meanwhile, by advancing the return on investment for the Arkh Series, its price competitiveness will increase year by year. When the time is right, we can market it as a product with strong cost competitiveness.

Q&A: Sales Plan for FY2026 to FY2027



Participant: Regarding the sales plan for FY2026 to FY2027 on slide 23, please give us a sense of the scale of sales that you expect to gain from future sales expansion, divided into organic growth and new products, including the “Arkh” series.

How much will new products contribute to the results for FY2026 and FY2027, and what is your estimate for organic growth?

Iizuka: For FY2026, as indicated on the slide, most of the growth will be driven by an increase in TCXOs. The growth in conventional products will be more significant, and the new Arkh Series will likely contribute less than JPY1 billion, or even less.

In the final year of the second medium-term management plan, FY2027, the main growth drivers will be high-frequency oscillators for automotive applications. Additionally, automotive WiFi, which requires a wide temperature range that conventional resonators cannot meet (±20ppm for WiFi), will see an increase in oscillator sales.

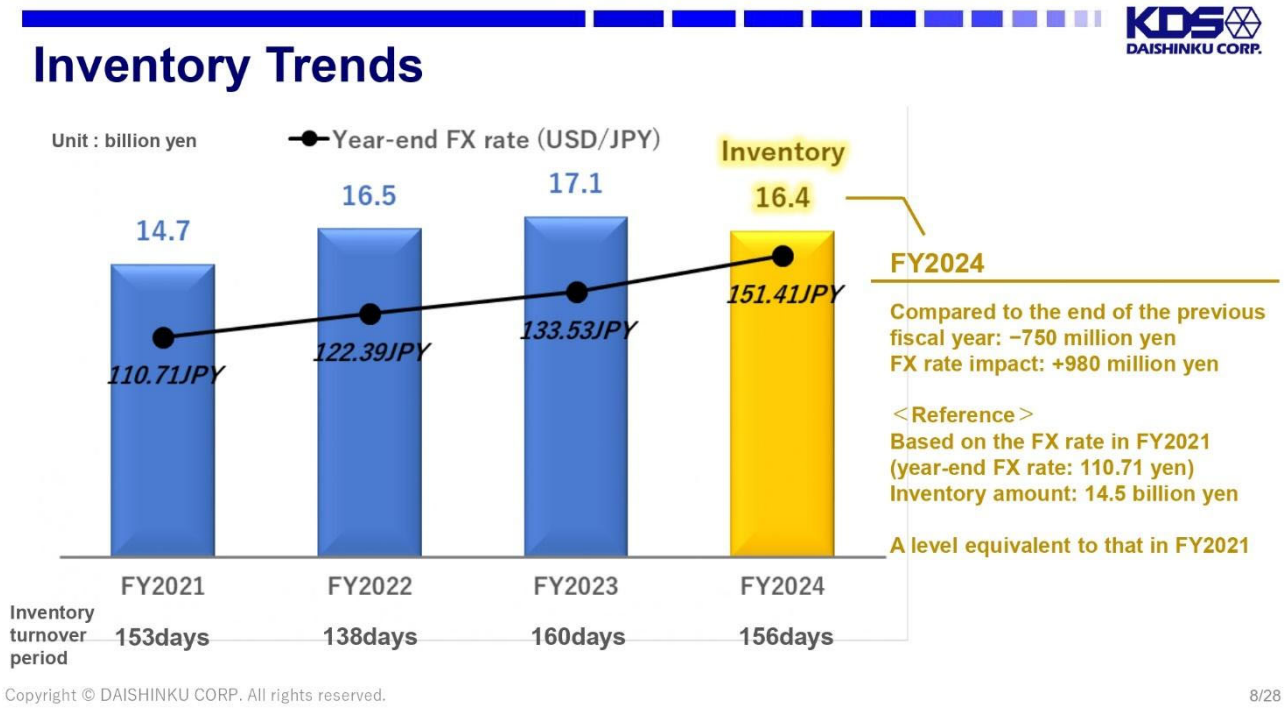
When we look at the products we can offer by 2027, it seems that conventional products will still be more prevalent than the Arkh Series.

We plan to announce the Arkh.2G concept to our customers, but for automotive applications, it is likely that they will not adopt it until several years of evaluation have passed, meaning it won't be used until after 2027.

In the near term, we expect that high-frequency differential oscillators for optical transceivers will be adopted quickly. Differential oscillators are essential for AI servers and data communication, so we are targeting those areas.

While we aimed for a JPY9 billion increase YoY, it would have been better to include quantity targets. We expect the proportion of high-value products to increase in 2027.

Q&A: Inventory Level Insights



Participant: Regarding inventory levels, you mentioned earlier that, excluding FX rate impact, the level is similar to FY2021 during the COVID-19 pandemic. However, compared to the inventory turnover period shown in the previous medium-term management plan, it seems like inventories are still piling up.

You mentioned that the inventory level would be almost flat in FY2025. Over the next three years, how will your inventory levels change compared to past practices? Will you be reducing inventory levels, and if so, how will this be managed?

Iizuka: To achieve our sales target of JPY53 billion in the final year of the medium-term management plan, we are looking at inventory turnover days. As shown on slide 8, inventory levels are still high, as you pointed out. Our goal is to reduce turnover days to the double digits as quickly as possible.

Naturally, increasing sales will reduce turnover days, but considering the current inventory levels, it will still be in the triple digits in the final year of the medium-term management plan. We want to make adjustments, but it might be challenging this year.

Inventory turnover days are expected to improve in the final year of the second medium-term management plan, and we may aim to achieve double digits in the first year of the third medium-term management plan.