



**Sohn Conference Hong Kong presented by
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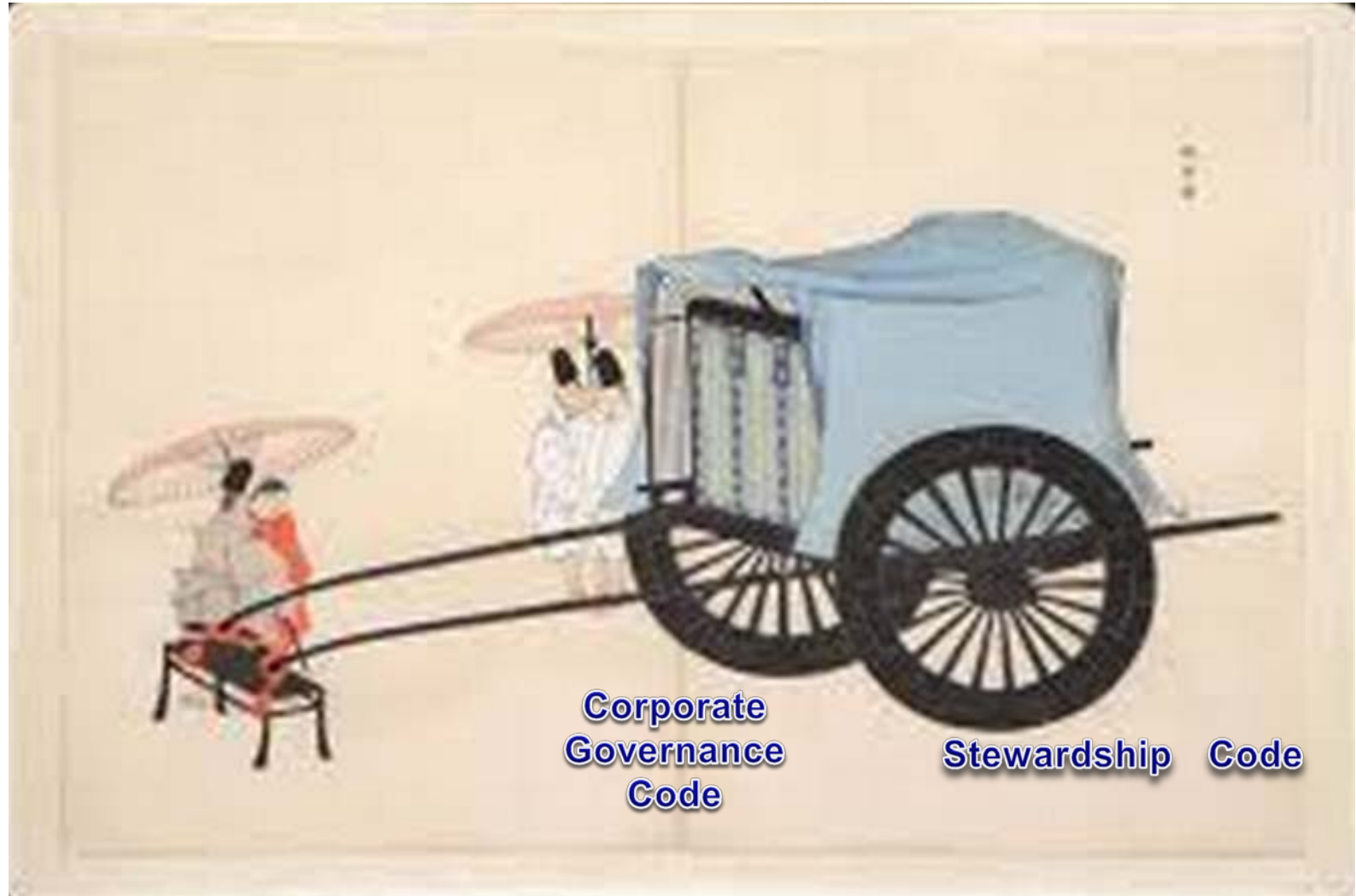
**Seth Fischer
Oasis**

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Positive Change is Happening in Japan



Abe's Third Arrow "Two Wheels on a Cart"



184 Investors Have Signed The Stewardship Code

“Stewardship responsibilities” and the role of the Code

In this Code, “stewardship responsibilities” refers to the responsibilities of institutional **investors to enhance the medium- to long-term investment return for their clients** and beneficiaries (including ultimate beneficiaries; the same shall apply hereafter) by improving and fostering the investee companies’ corporate value and sustainable growth **through constructive engagement**, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment.

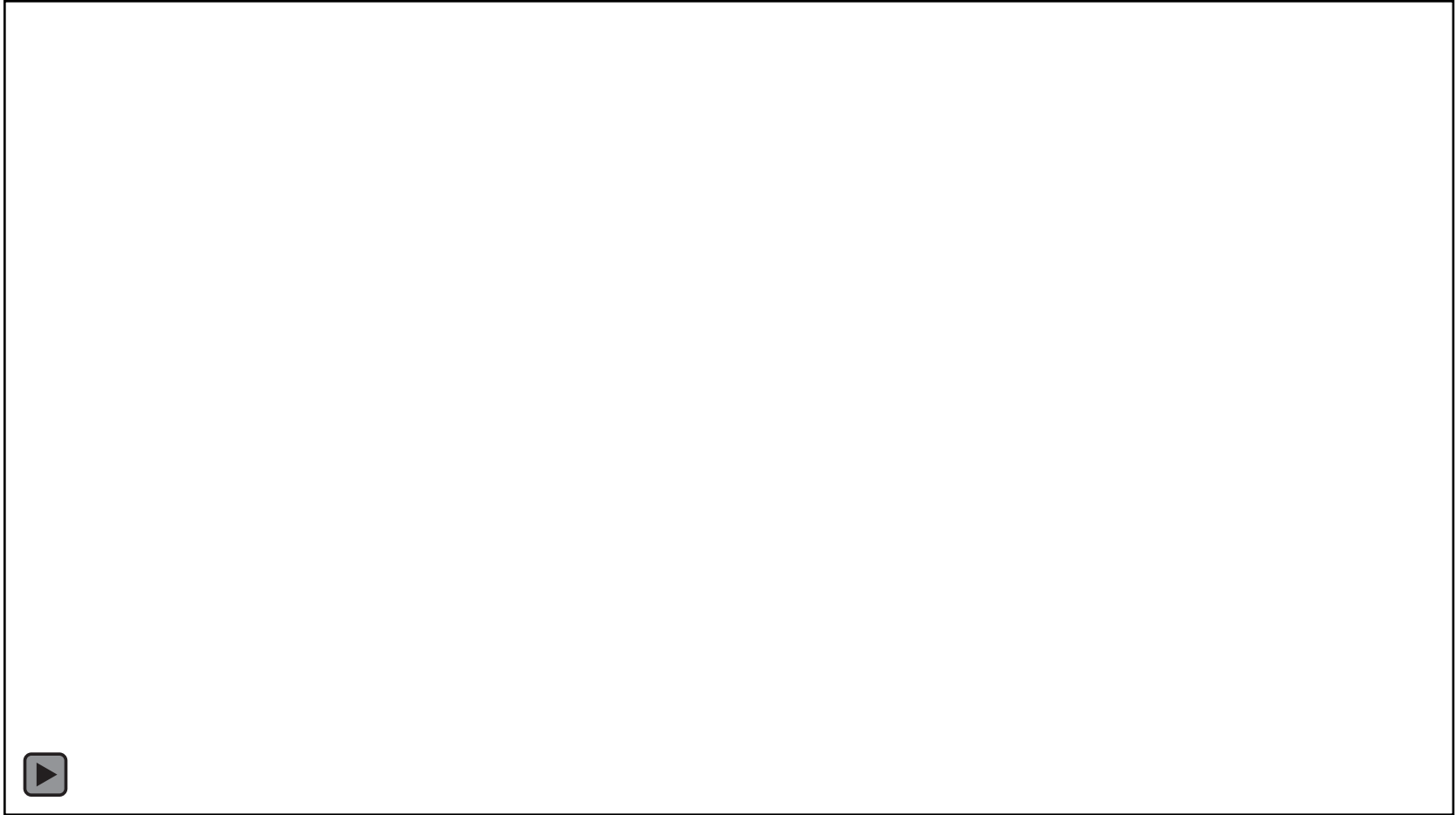
This Code defines principles considered to be helpful or institutional investors who behave as responsible institutional investors in fulfilling their stewardship responsibilities with due regard both to their clients and beneficiaries and to investee companies. **By fulfilling their stewardship responsibilities properly in line with this Code**, institutional investors will also be able to contribute to the growth of the economy as a whole

**Engagement is not just for foreign
shareholders**

Stewardship Code Promotes the Importance of Dialogue and Management Accountability



“Ah, those were great days, The Pre-Accountabilty Era.”



Amoeba Management

- Conceived by Kazuo Inamori who founded Kyocera and KDDI.

The Objectives of Amoeba Management

Objective No. 1: Establish a Market-Oriented Divisional Accounting System

The fundamental principle for managing a company is to maximize revenues and minimize expenses. To implement this principle throughout a company, the organization is divided into many small accounting units that can promptly respond to market changes.

Objective No. 2: Foster Personnel with a Sense of Management

Divide the organization into small units as necessary, and rebuild it as a unified body of discrete enterprises. Entrust the management of these units to amoeba leaders in order to foster personnel with a sense of management.

Objective No. 3: Realize Management by All

Realize "management by all," where all employees can combine their efforts to participate in management for the development of the company, as well as work with a sense of purpose and accomplishment.

(From the book, *Amoeba Management*)

Kyocera – A Gem Hiding in Plain Sight

- **No.1 leader in ceramic packages for smartphones**
 - As smartphones get thinner ceramic packages have become the best solution and Kyocera have over 90% market share
- **Growing high margin businesses, overshadowed by losses in US telecom and solar, amongst others**
 - Fine Ceramics has 18% OPM and growing at 13%
 - Packaging – ceramic and organic have 16% OPM and growing at 16%
 - Cutting tools, ceramic body parts and others have 18% OPM and growing at 9%
- **Changes are already underway**
 - Recent consolidation of disparate sales teams to focus on single industries has an increase in cross-selling opportunities
 - Actively looking for M&A opportunities in high growth areas such as automotive

Financial Summary

6971 JP Equity	KYOCERA CORP
Last updated	02-Jun-15
JPYbn	
Stock Price	6,711.0
Market Cap	2,534.2
Cash and Cash Equivalents	446.6
Total debt	31.5
Enterprise Value	2,207.4
LT Investment	1,072.0
Adjusted EV	1,135.3
FY15 EBITDA	166.4
FY15 EV/EBITDA	6.8x
P/E	21.2x
Price to book	1.1x
ROE FY15	5.6%

Impact of the Stewardship Code on Kyocera

57% of Kyocera's top shareholders (owning in excess of 70% of Kyocera) are either foreign investors or signatories of the code

Kyocera			
Holder Name	Position	% Out	Japan Stewardship Signatory
BLACKROCK	21,045,463	5.6	BlackRock Japan Co., Ltd.(Formerly BGI)
DODGE & COX	20,012,800	5.3	Foreign
MITSUB UFJ FINANCIAL GROU	19,718,950	5.2	Mitsubishi UFJ Asset Management Co., Ltd.
SUMITOMO MITSUI TRUST HO	19,167,800	5.1	Sumitomo Mitsui Trust Bank, Limited
NOMURA	16,141,400	4.3	Nomura Asset Management Co., Ltd.
NIKKO ASSET MANAGEMENT C	8,550,700	2.3	Nikko Asset Management Co., Ltd
DAIWA SECURITIES GROUP IN	8,387,920	2.2	Daiwa Securities Co., Ltd.
BNP PARIBAS SECURITIES JA	7,058,000	1.9	BNP Paribas Investment Partners Japan Ltd.
VANGUARD GROUP INC	4,856,528	1.3	Foreign
NORGES BANK INVESTMENT M	4,174,961	1.1	Foreign
OPPENHEIMERFUNDS INCORPO	3,043,600	0.8	Foreign
GRANTHAM MAYO VAN OTTERLOO	2,501,680	0.66	Foreign
BANK OF NEW YORK MELLON	2,376,588	0.63	BNY Mellon Asset Management Japan Limited
DEUTSCHE BANK AG	2,255,436	0.6	Deutsche Asset Management (Japan) Limited
MASSACHUSETTS FINANCIAL	1,549,300	0.41	Foreign
GLG PARTNERS LP	1,194,300	0.32	Foreign
T ROWE PRICE ASSOCIATES	1,149,600	0.3	T. Rowe Price International, Inc.
TOKIO MARINE & NICHIDO	1,031,422	0.27	Tokio Marine & Nichido Fire Insurance Co., Ltd.
NIPPON LIFE INSURANCE C	1,002,900	0.27	Nippon Life Insurance Company
MIZUHO ASSET MANAGEMENT	845,800	0.22	Mizuho Asset Management Co., Ltd.
DIMENSIONAL FUND ADVIS	796,058	0.21	Dimensional Fund Advisors
MANULIFE ASSET MANAGEME	762,987	0.2	Manulife Asset Management (Japan) Limited
USAA INVESTMENT MANAGEM	729,500	0.19	Foreign
CREDIT SUISSE AG	675,443	0.18	Foreign
SOMPO JAPAN NIPPONKOA	631,600	0.17	Sompo Japan Nipponkoa Asset Management Co., Ltd.

Market Does Not Yet Believe that Kyocera will Budge



Engagement Works But It Takes Time



Changes We Have Asked Kyocera to Make

- Transparency
 - Improve transparency of disclosure
- Rightsize the capital structure
 - Unwind the cross-shareholdings
- Improve returns
 - Close the loss making US telecom business
 - Capitalize on potential in solar

Kyocera's Current Disclosure



Large numbers in overly broad categories

	Years ended March 31,			
	2013		2014	
	Amount	%	Amount	%
	(Yen in millions)			
Fine Ceramic Parts Group	¥ 74,852	5.9	¥ 80,020	5.5
Semiconductor Parts Group	167,241	13.1	187,891	13.0
Applied Ceramic Products Group	211,439	16.5	272,795	18.9
Electronic Device Group	271,570	21.2	284,322	19.6
Total Components Business	725,102	56.7	825,028	57.0
Telecommunications Equipment Group	177,314	13.8	186,749	12.9
Information Equipment Group	250,534	19.6	307,848	21.3
Total Equipment Business	427,848	33.4	494,597	34.2
Others	159,902	12.5	173,137	11.9
Adjustments and eliminations	(32,798)	(2.6)	(45,393)	(3.1)
Net sales	¥ 1,280,054	100.0	¥ 1,447,369	100.0

	Years ended March 31,			
	2013		2014	
	Amount	%*	Amount	%*
	(Yen in millions)			
Fine Ceramic Parts Group	¥ 7,614	10.2	¥ 11,836	14.8
Semiconductor Parts Group	30,379	18.2	31,889	17.0
Applied Ceramic Products Group	17,924	8.5	33,501	12.3
Electronic Device Group	(4,014)	—	21,160	7.4
Total Components Business	51,903	7.2	98,386	11.9
Telecommunications Equipment Group	1,340	0.8	1,437	0.8
Information Equipment Group	21,750	8.7	28,193	9.2
Total Equipment Business	23,090	5.4	29,630	6.0
Others	10,542	6.6	6,276	3.6
Operating profit	85,535	6.7	134,292	9.3
Corporate gains and equity in losses of affiliates and an unconsolidated subsidiary	17,248	—	11,889	—
Adjustments and eliminations	(1,420)	—	87	—
Income before income taxes	¥ 101,363	7.9	¥ 146,268	10.1

Analyst Valuations are Not Based on the Underlying Business

Better disclosure will help the analysts produce a more accurate valuation

Our ¥7,300 target price is derived from theoretical shareholder value of ¥2,662.4bn (= FY3/17E adjusted NOPAT of ¥105.5bn x future business value multiplier of 17.1 + FY3/16E net cash of ¥1,412.9bn [after deducting an amount equivalent to 5% of annual sales, including 70% of the book value of held-for-investment securities] - end-FY3/17E minority interest of ¥109.3bn) / (1 + WACC)². In deriving our future business value multiplier of $17.1x = (1 - g/RoIC)/(WACC - g)$, we assume FY3/17E adjusted RoIC of 11.6%, WACC of 6.6% (adjusted beta of 1.08, tax rate of 29%). Our ¥7,300 target price equates to an FY3/16E PER of c24x and an FY3/17E PER of 24x.

Valuation Methodology: Based on our DCF model assumptions: risk-free rate 1.5%, equity beta 1.03, risk premium 4.0%, yielding WACC 5.5%; zero growth from F3/24. Base case FV equates to P/E 23.2x on F3/16e diluted EPS ¥270.9.

We raise our 12-m TP to ¥5,900 from ¥5,700 (FY3/16-3/17E EV/GCI vs. CROCI/WACC; equals FY3/16E P/E of 20X) on new investment and amortization assumptions. We stay Neutral but risk/return is deteriorating and we remain cautious. Risks: Smartphone/solar industry changes, forex.

Improving ROE is SIMPLE

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholders Equity}}$$

- Close US telecom business
- Solar YieldCo Business
- Unwind cross-shareholdings

The ROE Revolution Is Happening

SUMITOMO ELECTRIC

- President Matsumoto-san: “*The company sees shareholders as the most important of its stakeholders*”
- *New ROE target of 8%*
- **Six months ago the company never mentioned ROE**

FA&ROBOT&ROBOMACHINE **FANUC**

- Doubled dividend payout ratio from 30% to 60% and aiming for 80% over next five years
- Cancelling ¥920bn of treasury shares
- Decided to speak regularly with shareholders and start a formal investor relations service
- **Had been ranked last out of 251 companies for its disclosures to shareholders by the Securities Analysts Association of Japan**

Other Companies that have Taken Action on their ROE

2914 Japan Tobacco	6767 Mitsumi Electric
2502 Asahi Group Holdings	9432 NTT
2282 NH Foods	9437 NTT DoCoMo
1941 Chudenko	4689 Yahoo Japan
4452 Kao	7974 Nintendo
4901 Fujifilm Holdings	4324 Dentsu
3402 Toray Industries	9404 Nippon Television Holdings
4578 Otsuka Holdings	2432 DeNA
4507 Shionogi	2327 NS Solutions
7203 Toyota Motor	9747 Asatsu-Dk
5401 Nippon Steel & Sumitomo Metal	9064 Yamato Holdings
5486 Hitachi Metals	9005 Tokyu
6326 Kubota	9107 Kawasaki Kisen
6113 Amada	9375 Kintetsu World Express
6963 Rohm	8058 Mitsubishi Corp.
6954 Fanuc	8031 Mitsui & Co.
7751 Canon	8130 Sangetsu
6758 Sony	2670 ABC-Mart
6861 Keyence	9831 Yamada Denki
6752 Panasonic	8252 Marui Group
6724 Seiko Epson	8242 H2O Retailing/Takashimaya
6592 Mabuchi Motor	8219 Aoyama Trading
7762 Citizen Holdings	8306 Mitsubishi UFJ Financial Group
6857 Advantest	8766 Tokio Marine Holdings
6976 Taiyo Yuden	8750 Dai-ichi Life Insurance
7735 SCREEN Holdings	8613 Marusan Securities
6996 Nichicon	

Starting with 'E' – Rightsizing the Balance Sheet

Kyocera	FY 2015 JPYbn
Assets	
+ Cash & marketable securities	446.6
+ Accounts & Notes Receivable	313.2
+ Inventories	354.5
+ Other Current Assets	343.3
Total Current Assets	1,457.5
+ LT Investments & LT Receivables	1,072.0
+ Net Fixed Assets	261.5
+ Other Long-Term Assets	230.1
Total Long-Term Assets	1,563.6
Total Assets	3,021.2
Liabilities & Shareholders' Equity	
Total Current Liabilities	356.3
+ Long-Term Borrowings	17.9
+ Other Long-Term Liabilities	343.4
Total Long-Term Liabilities	361.3
Total Liabilities	717.6
Total Equity	2,303.6
Total Liabilities & Equity	3,021.2

96% KDDI Shares

The Final Unwind of Cross-Shareholdings is Coming



Corporate Governance – Companies are Changing

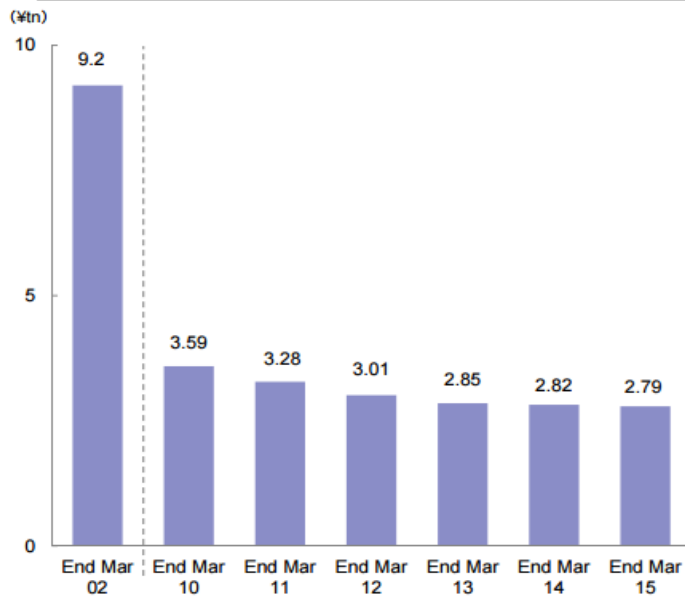
(MUFG's Recent Results Announcement)

Reduction of equity holdings

(Consolidated)

- Our policy is decreasing equity holdings balance considering the risk, efficiency of capital and global financial regulation
- Disclosure of a policy on shareholdings is required under "Principle 1.4 Cross-Shareholdings" of Japan's Corporate Governance Code, and MUFG plans to state the policy in its corporate governance report in accordance with the revised bylaws of the Tokyo Stock Exchange in July

Reduction of equity holdings*1



*1 Acquisition price of domestic equity securities in the category of "other securities" with market value (consolidated)

Correspondence to CGC Principle 1.4 *2

- Shareholding's policy – MUFG plans to state a policy regarding its shareholding of listed stocks
- Method for verifying economic rationale and other considerations
 - MUFG will verify the medium- to long-term economic rationale and outlook for its shareholdings in light of the risk-return and other tradeoffs with major cross-shareholding counterparties, keeping ROE target in mind
- Standards for exercising voting rights
 - MUFG will formulate and disclose standards that ensure a proper response regarding the exercise of voting rights to cross-shareholding stocks

*2 Please refer to MUFG corporate governance policy (posted on 15th May). MUFG plans to state the detail in its corporate governance report in July



Responsibilities for Cross-Shareholdings

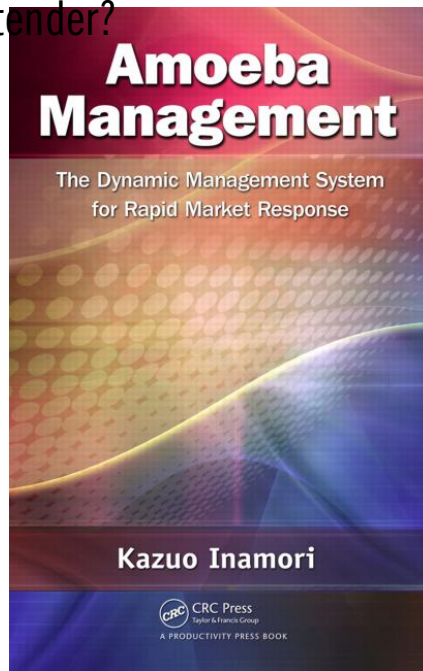
Principle 1.4 Cross-Shareholdings

When companies hold shares of other listed companies as cross-shareholdings, they should disclose their policy with respect to doing so. In addition, **the board should examine the mid- to long-term economic rationale and future outlook of major cross-shareholdings on an annual basis, taking into consideration both associated risks and returns.** The annual examination should result in the board's detailed explanation of the objective and rationale behind cross-shareholdings.

Companies should establish and disclose standards with respect to the voting rights as to their cross-shareholdings.

KDDI Cross-Shareholding

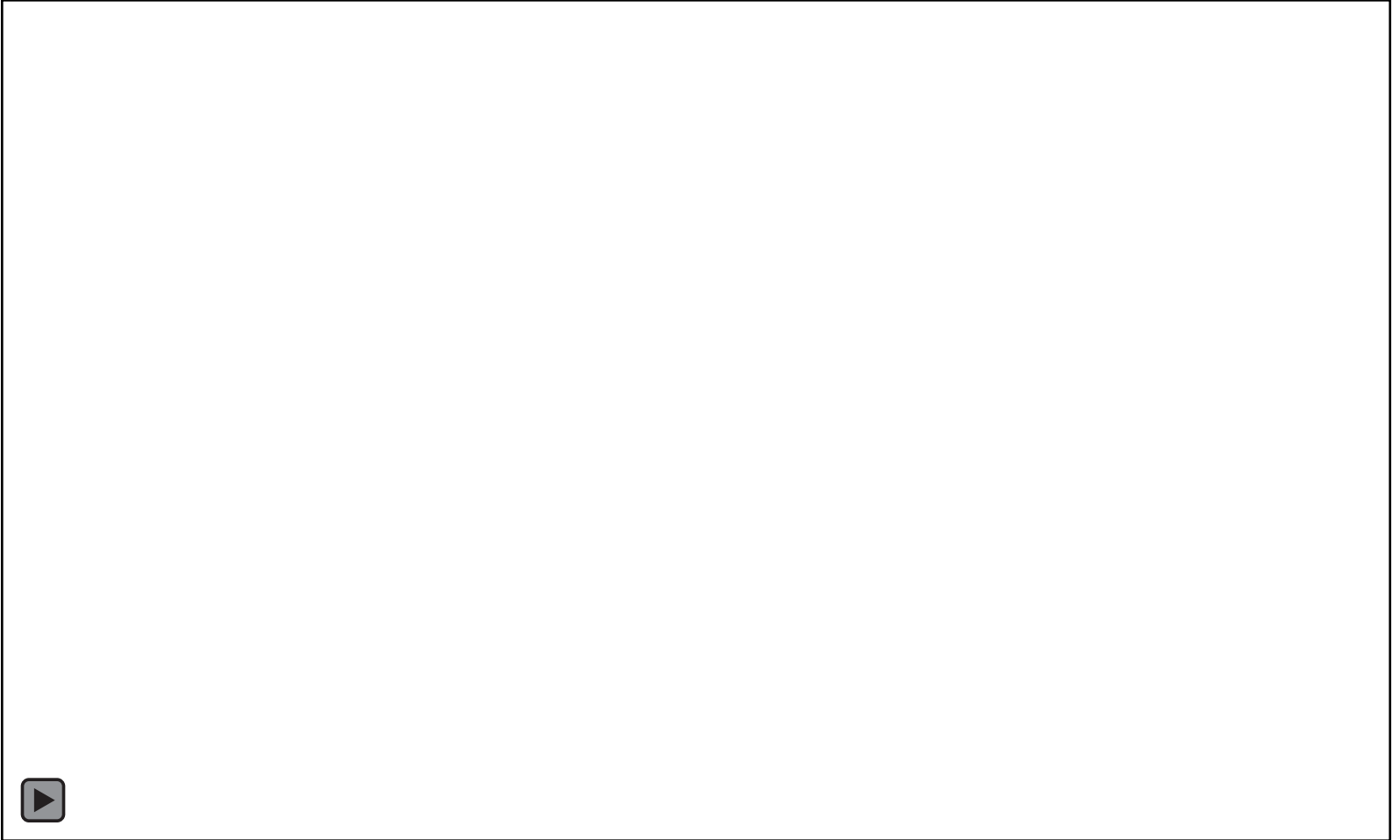
- Kyocera's holdings of KDDI is valued at ¥967bn - 96% of their cross-shareholdings
- Sales to KDDI amount to only 8% of consolidated sales in the telecommunications segment in FY14
- With its dividends, the KDDI relationship contributed just 6% to net income in FY14
- Holding on to this stock is against Kyocera's founding philosophy – Amoeba Management
- Dutch tender?



Kazuo Inamori

Tackling the 'R'

US Telecommunication business – Losing in Everyway



New Kyocera US Handsets



Rally
S1370



DuraXV
E4520



DuraXA
E4510



Contact
S3150
Not smart but still brilliant



DuraScout
E6782



DuraForce
E6560/E6560C/E6762



Torque^{XT}
E6715

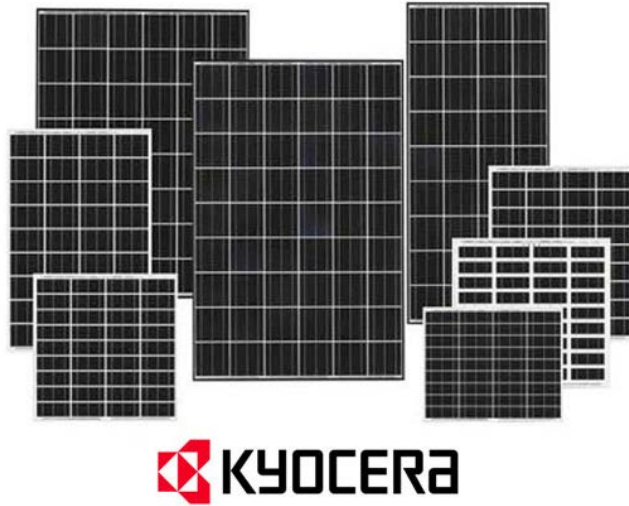


Hydro LIFE
C6530N

Customers Worried about Water and Scratch Resistance can Just Buy Cases for their Phones



Kyocera's Solar Business



Strive for Perfection has its Downsides

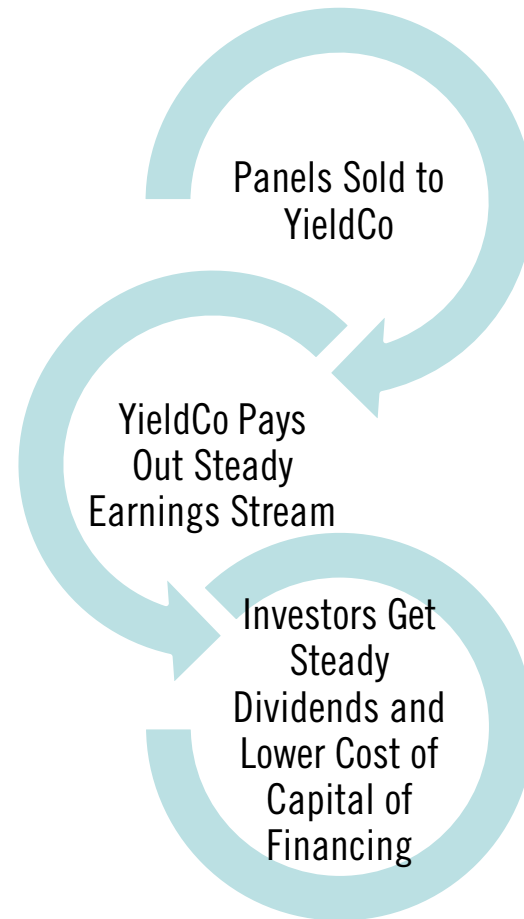
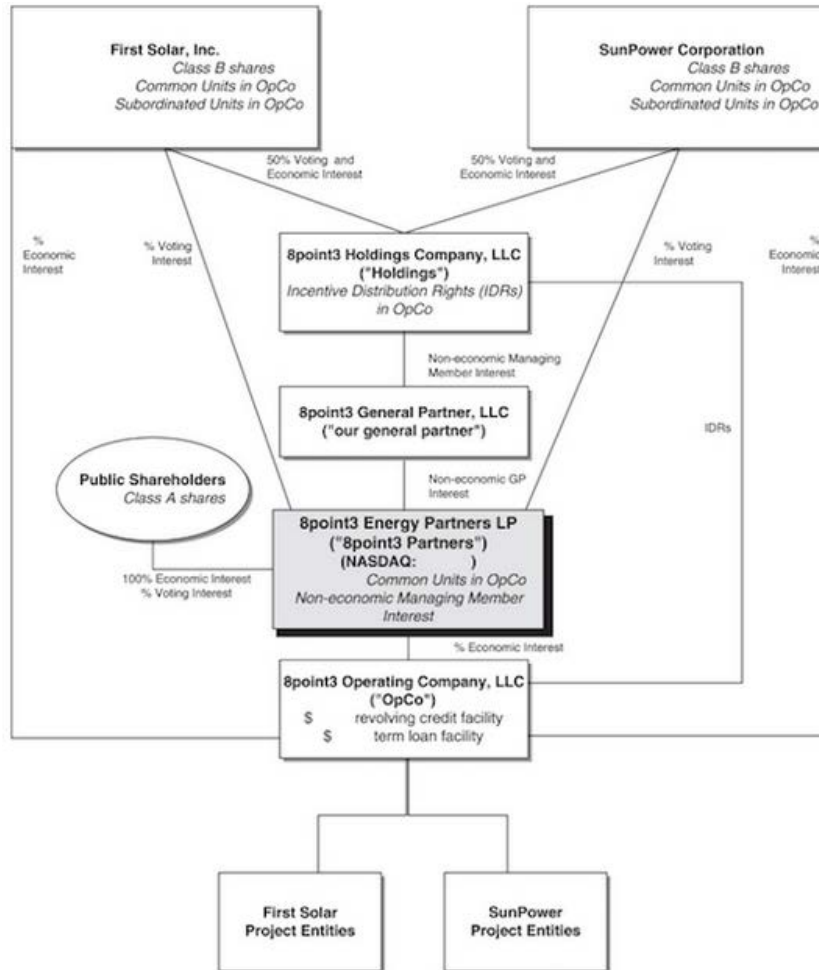
- Kyocera's strive for perfection has led it to design and manufacture some of the best solar panels in the world. These panels:
 - Have a higher conversion efficiency of 18% compared to their competitors that have a maximum of 16%
 - Maintain their efficiency ratio over the useful life which is greater than 20 years
 - 40 year track record
- Unfortunately, high quality means a higher price point which industrial users won't pay

But there is a solution...

Chance to Create SunEdison of Japan



The Solar YieldCo Explained



Japan Opening Up YieldCo Market and Renewable Energy Securitizations



Solar Power Plant Business

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Tokyo Stock Exchange to Launch 'Infrastructure Fund Market'

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Goldman Sachs targets \$1 bln in Japan renewable energy bonds

TOKYO

Foreign YieldCos are Already Targeting Japan

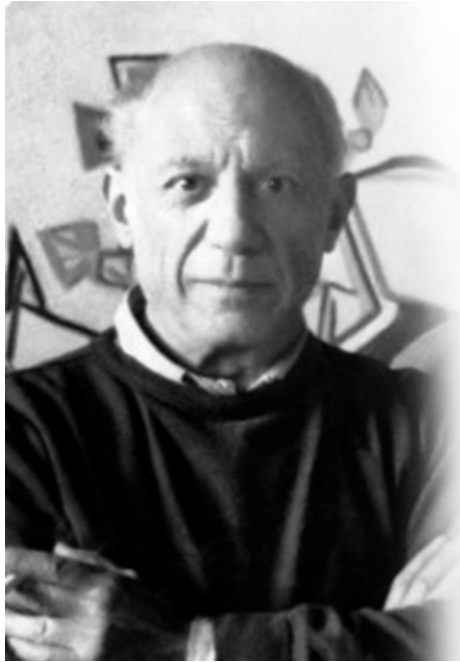
“We like Japan because the quality of the PPAs, the [feeding] tariff is very high. **We believe that we have an edge on cost of capital.**” – *TERP (SUNE YieldCo) May 7, 2015 Conference Call*

“Finally, our utility-scale solar development activities in Japan continue to progress, as demonstrated by our first bookings this month...While the cumulative volume of these initial projects is relatively small, it represents an important evolution from supplying modules to third parties in Japan to now successfully developing and realizing our own pipeline.” –

First Solar April 30, 2015 Conference Call

“I said in the call last quarter, for YieldCo purposes, we're focusing on very high-quality countries. So you're thinking about US, Canada, UK and Japan.” – *Canadian Solar May 7, 2015 Conference Call*

If Investing and Capital Allocation is an Art...



"Good artists copy,
great artists steal."

- Pablo Picasso

Solar Financing will Win the Hunger Games



Solar Annual 2015 Hunger Games

- PV sector growth in 2015 and 2016 will lead to ferocious battles for local monopolies in a growing number of markets.
- As the number of local markets reaching saturation increases, traditional utilities will fight back hard as they lose volume, revenue and profit.
- Strong profits in solar system financing and ownership are attracting new entrants from natural gas, mobile telecom, building security and others.
- The stage is set for an intricate, dangerous – and possibly deadly – Hunger Games across markets and segments.

Solar Annual 2015: Hunger Games is PHOTON Consulting's industry-leading annual sector outlook. It is THE essential reference tool for solar decision makers.

Valuation - Sum of the Parts

Kyocera	
SOTP	JPYbn
Fine Ceramic Parts Group	308.4
Semiconductor Group	668.2
Applied Ceramics - Non-Solar	331.1
Applied Ceramics - Solar (No Change)	0.0
Electronic Device Group - AVX	214.3
Electronic Device Group - Non-AVX	139.1
Telecom equipment - Japan	116.5
Telecom equipment - International	0.0
Information Equipment Group	459.6
Others	23.7
Total	2,261.0
Solar Yield Co business	500-1000
Net Cash	415.1
Treasury Stock	73.2
Stocks	1,072.0
Total	3,821.4
Outstanding shares	0.4
Value per share (Solar at Zero)	10,119.7
Value per Share (Solar Blue Sky)	12,767.9
Stock price	6,711.0
Upside (Solar at Zero)	50.8%
Upside (Solar Blue Sky)	90.3%

Thank you



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