HIROSE ELECTRIC CO., LTD.

Q3 Financial Results Briefing for the Fiscal Year Ending March 2019

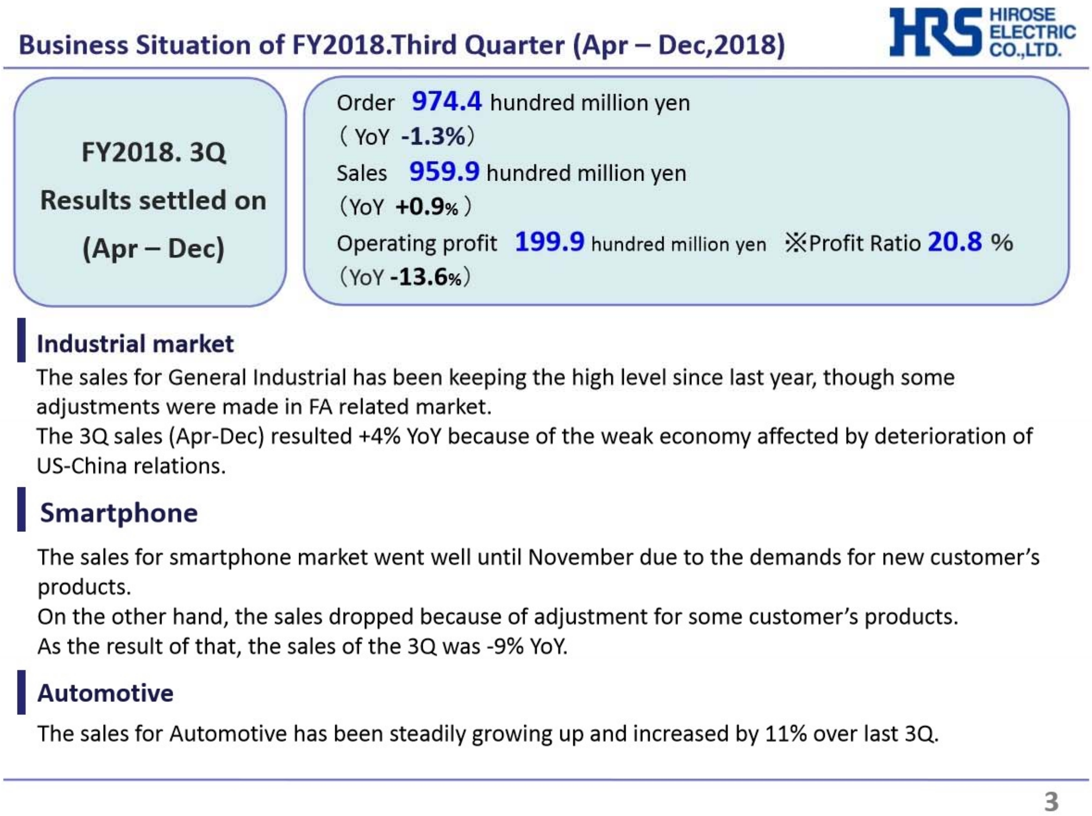
February 7, 2019

Event Summary

[Company Name]	HIROSE ELECTRIC CO., LTD.
[Event Type]	Earnings Announcement
[Event Name]	Q3 Financial Results Briefing for the Fiscal Year Ending March 2019
[Fiscal Period]	FY2018 Q3
[Date]	February 7, 2019
[Time]	10:30 – 11:27 (Total: 57 minutes, Presentation: 29 minutes, Q&A: 28 minutes)
[Venue]	Sapia Tower 6F 602, 1-7-12 Marunouchi, Chiyoda-ku, Tokyo 100-0005
[Venue Size]	231 m^2
[Number of Speakers]	2 Hiroshi Fukumoto — Operating Officer, Acting Group President, Administration Group Hideo Suzaki — Manager, IR Office, Administration Group

Presentation

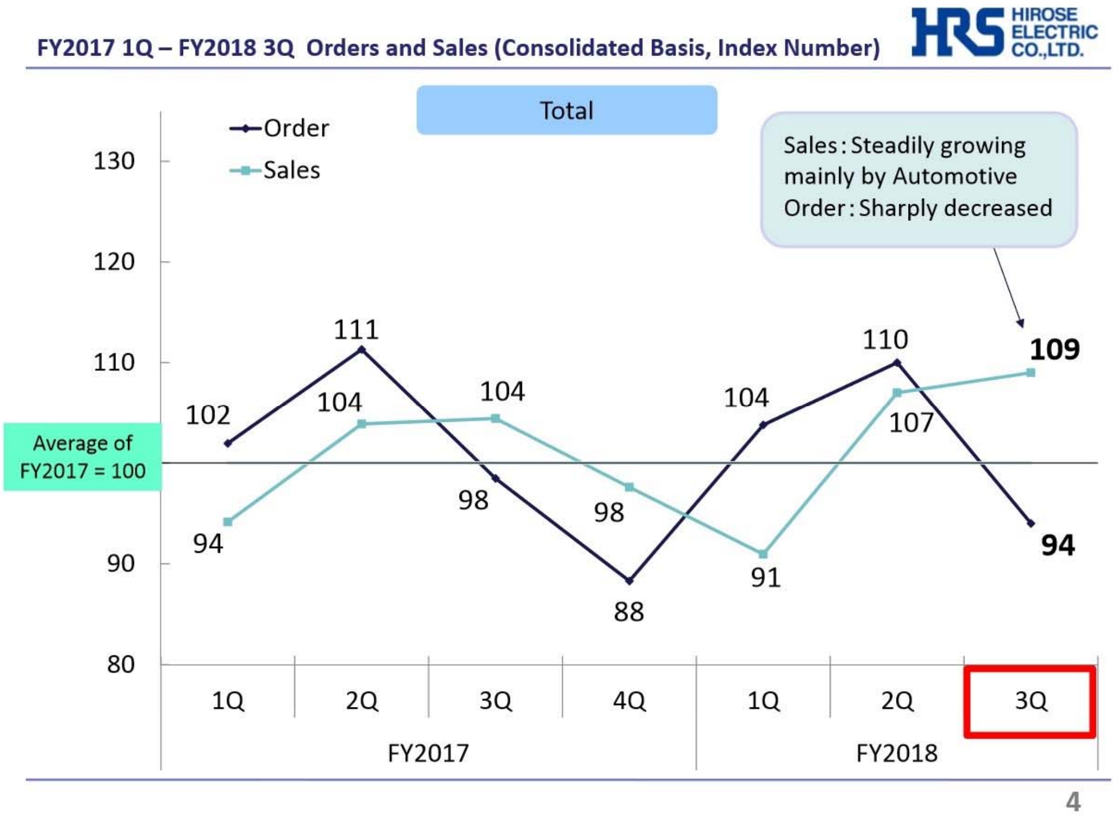
Suzaki: Good morning. As the time has come, we will commence a briefing on the financial results for the third quarter of Hirose Electric from now on. Thank you very much for your visit today. I am Suzaki, Investor Relations Office, Administration Group of Hirose Electric. First of all, I would like to confirm the documents we have distributed to you. The materials for the financial results briefing are provided in the file at the reception desk. In addition, the financial results announced yesterday on the Tokyo Stock Exchange, the announcement of revisions to the financial results forecast. These three parts are the materials for today. Do you have them?



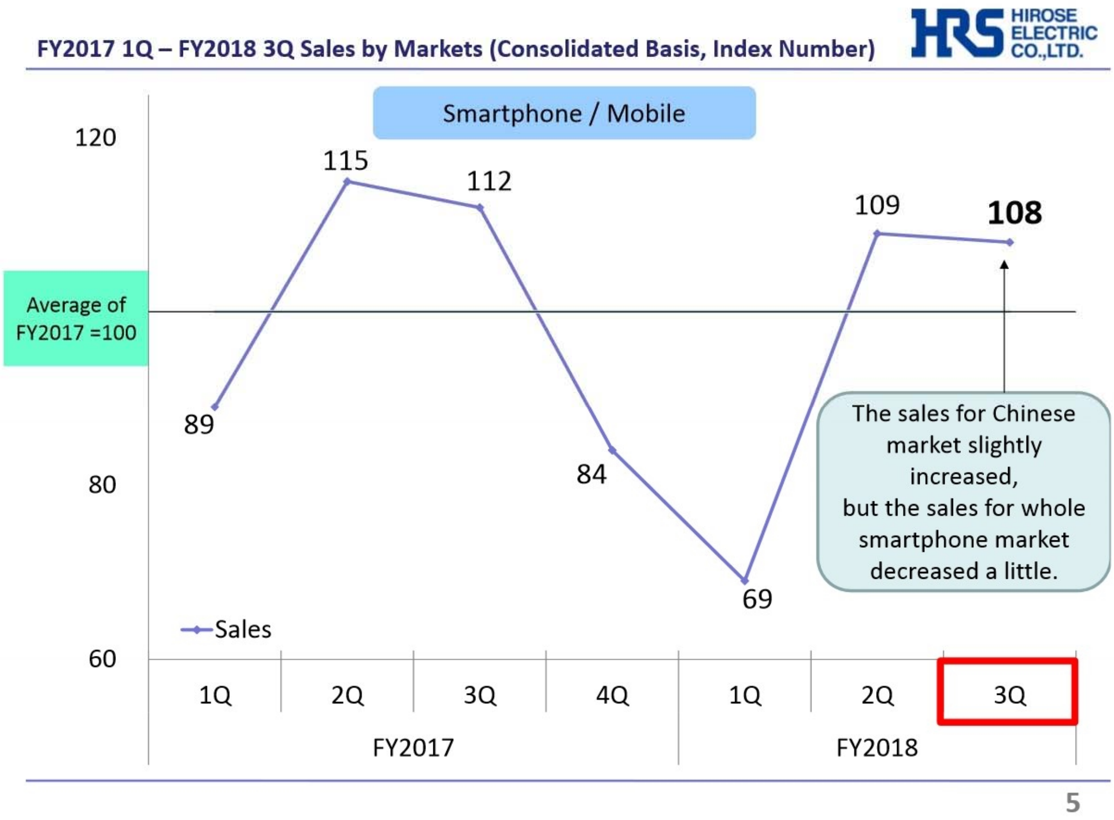
Now I'll start. First, we outline our financial results for the third quarter. Orders received were 97.44 billion yen, down 1.3% from the same period of the previous fiscal year. Sales were 95.99 billion yen, an increase of 0.9% year on year. Operating income was 19.99 billion yen, the profit margin was 20.8% and the year-on-year decrease thereof was 13.6%. Regarding the three major fields by application, sales for the general industrial machinery market remained generally at a high level from the previous fiscal year, despite some adjustments for FA-related sales. Nevertheless, the year-on-year rate of change only slightly increased by 4%, partly due to the effects of the economic downturn caused by the worsening of the U.S.-China relations. I would like to touch on this of 4Q later.

In addition, thanks to the demand for new models for smartphones, known as the autumn model, sales remained steady in the third quarter, particularly until November. However, it was affected by inventory adjustments for some models in December, resulting in the slowdown. Accumulated total in the third quarter recorded a 9% year-on-year decrease. When I explained the 2Q, I stated that the sales would increase slightly in the 3Q. However, as we saw a sharp decline in December, the quarter-on-quarter figure was also slightly negative.

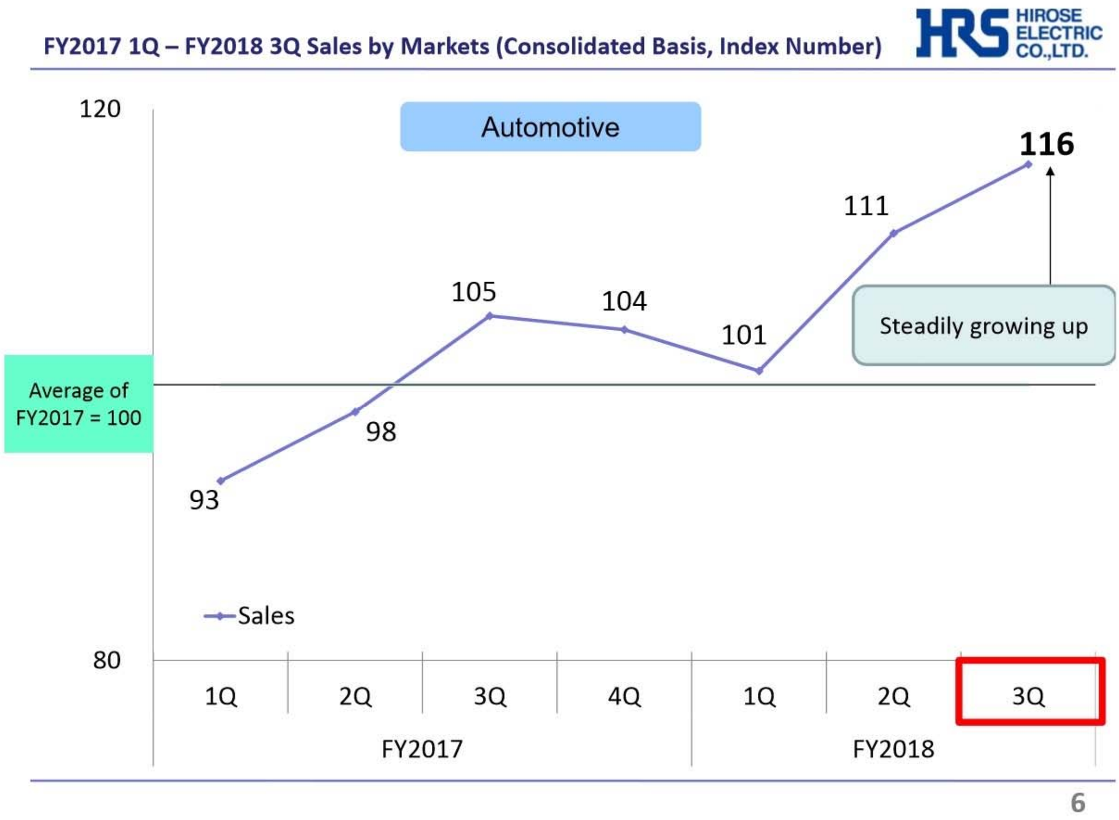
Sales for automotive applications were steady. Cumulative 3Q sales increased by 11%. To a certain extent, sales for the Automotive sector have been in line with our plan. The increase in demand for EVs and ADAS are contributing to its steadiness.



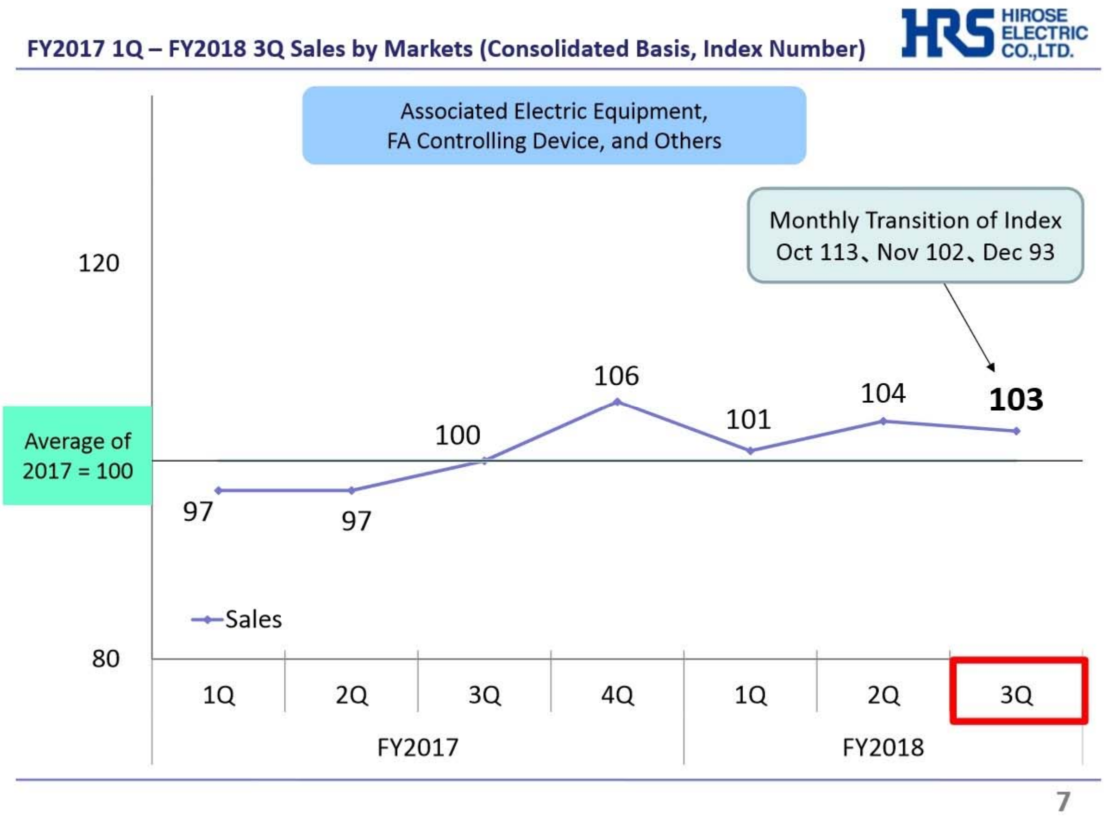
Next, please see the graph. First, although sales were firm as a whole due to growth in sales for the Automotive, orders actually declined sharply. While the 3Q figure is accumulated amount for three months, the orders in December declined particularly. In terms of sales, the index has risen from 107 to 109, but it also saw a slight decline in December.



Next, we will see the Smartphone. Looking at the index, it appears that from 2Q to the 3Q is almost flat and slightly down, showing the figure of 109 to 108. Looking at the contents, however, the figure for the Chinese market is slightly positive, while for other areas, the figure is slightly down, resulting in a total slight decrease. As I mentioned earlier, the smartphone also recorded significantly lower sales in December. The figures are not disclosed, but the month-on-month figure from November to December showed a roughly 20% reduction.



Next is the Automotive. Automotive sales were strong, I have only such a simple comment. As I mentioned earlier, we are seeing a net increase in new demand for EVs, ADAS, and other products, and results are as planned. We are seeing a slump in sales in the so-called end market, but our parts are relatively long-term business. Although there was a slight decline in sales in December, we have maintained a certain level of total sales.



Lastly, we will see the sales for General Industrial. Although this is moving at a flat level even with a glance, as I mentioned earlier, the monthly index trends are also included in the supplementary explanation. The 3Q as a whole is 103, but the breakdown of it has dropped sharply from 113 in October, 102 in November, to 93 in December. Naturally, the number of orders received was down sharply in December, and I would like to explain later. The main factor of the downward revision of the 4Q is that a sense of uncertainty particularly about industrial machinery increased.

Business Results for FY2018.3Q 【IFRS】

HIROSE ELECTRIC CO.,LTD.

（Unit：hundred millions of yen）

	FY2017.3Q（FY ended Dec31, 2017）	FY2018.3Q（FY ended Dec31, 2018）	Increase / Decrease（YoY）	Increase / Decrease Ratio（YoY）
Sales	**951.7**	**959.9**	**+8.2**	**+0.9%**
COGS Ratio	53.0%	55.1%	+2.1	
SGA Ratio	22.6%	24.1%	+1.5	
Operating Profit	**231.2**	**199.9**	**-31.3**	**-13.6%**
（%）	24.3%	20.8%	-3.5	
Earnings before income tax	**234.8**	**212.4**	**-22.4**	**-9.5%**
（%）	24.7%	22.1%	-2.6	
Net Profit	**163.5**	**152.2**	**-11.3**	**-6.9%**
（%）	17.2%	15.9%	-1.3	
Total Assets	**3,426.9**	**3,396.9**		
Shareholder's Equity Ratio	**89.5%**	**90.0%**		
Income Per Share	**469.64 yen**	**416.08 yen**		

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From the above, I will provide an overview of the financial results. As mentioned earlier, sales was 95.99 billion yen, and the COGS ratio was 55.1%. The SGA ratio was 24.1%. This represented an increase of 820 million yen, or 0.9% as a percentage. As mentioned earlier, Operating profit was 19.99 billion yen. The profit margin was 20.8% and operating income decreased 13.6% from the same period of the previous fiscal year. Earnings before income taxes was 21.24 billion yen, 22.1%. Net profit was 15.22 billion yen, 15.9%, meaning the profit decreased from the previous period. Total assets was 339.69 billion yen, which is introduced later in the BS. The equity ratio was 90.0%, and earnings per share was 416.08 yen.

Major Changes over prior same period FY2018.3Q

HIROSE ELECTRIC CO.,LTD.

Unit : hundred millions of Yen

■ Sales — **8.2** hundred million yen **Increase** (951.7 → 959.9)

Hirose : **+20.2**
Subsidiaries : **-12.0**

■ COGS Ratio — **2.1 point Increase** (53.0% → 55.1%)

Purchase Cost Ratio : 37.8% → **38.4%**
Depreciation Ratio : 6.5% → **8.2%**

■ SGA Ratio — **1.5 point Increase** (22.6% → 24.1%)

215 → 231 (16 hundred million yen Increase)
(Increase in delivery expense and depreciation cost)

■ Financial revenue / expense — **8.9** hundred million yen **Increase** (3.6 → 12.5)

Foreign Exchange Gain / Loss : -3.5 → **+3.6**

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This is a supplemental slide for the major increase or decrease. Firstly, the increase in sales of 820 million yen consists of sales increase of Hirose Electric Co., Ltd. on a non-consolidated basis of 2.02 billion yen and decrease of subsidiaries of 1.2 billion yen. The COGS ratio deteriorated 2.1 percentage points. The purchase cost ratio deteriorated from 37.8% to 38.4%. But in fact, it was improved in the 3Q from the first half of the fiscal year, and the difference compared to the previous fiscal year has become smaller. The depreciation ratio increased from 6.5% to 8.2% due to increased investment including upfront investment in the current fiscal year.

The SGA ratio deteriorates 1.5 percentage points, from 21.5 billion yen to 23.1 billion yen, an increase of 1.6 billion yen. This is a year-on-year figure, but it is slightly decreasing from 2Q to 3Q. The breakdown of the annual increase, as in the 2Q, was increases in shipping and depreciation expenses.

Financial revenue and expense improved by 890 million yen, due mainly to an increase in foreign exchange gain of 360 million yen. When combined with the figure of the previous fiscal year, it was 700 million yen. This was the biggest factor.

FY2018.3Q YoY Variation analysis

HIROSE ELECTRIC CO.,LTD.

(Unit : hundred millions of yen)

	Sales	Operating profit	(%)	Earnings before income tax	(%)
FY2017.3Q Actual	**951.7**	**231.2**	**24.3%**	**234.8**	**24.7%**
Exchange rate	-0.5	-1.0		6.1	
Depreciation cost increase		-18.7		-18.7	
Labor cost increase		-7.0		-7.0	
Other SGA cost increase		-11.0		-11.0	
Decrease in the product, etc	8.7	6.4		8.2	
Total amount of change	8.2	-31.3		-22.4	
FY2018.3Q Actual	***959.9***	***199.9***	***20.8%***	***212.4***	***22.1%***

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Next, we will provide a supplement for our analysis of variations. As for the influence of the exchange rate, sales were negative and operating profit was negative by 100 million yen. Earnings before income taxes was a positive 610 million yen. As I have just described, in particular, we have incurred such upfront investments and upfront expenses for an increase in sales for Automobiles. Therefore, depreciation, labor cost, and other expenses have been increasing since last year. The sales are increasing, so it shows a little improvement.

Currency Effect for FY2018.3Q

HIROSE ELECTRIC CO.,LTD.

	FY2017.3Q	FY2018.3Q
Currency rate : US$	111.70 Yen	111.14 Yen
Currency rate : €	128.53 Yen	129.49 Yen
Currency rate : 100won	9.97 Yen	10.04 Yen

(Unit : Hundred millions of Yen)

YoY Currency effect amount	
Sales	**-0.5**
Operating Profit	**-1.0**
Earnings before income tax	**+6.1**

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Now, we have prepared a supplemental slide, which only includes the impact of foreign exchange. The yen appreciated slightly against the U.S. dollar and depreciated against the euro and won, resulting in such a performance. As I mentioned earlier, there were negative foreign exchange impacts of 50 million yen on net sales, negative impacts of 100 million yen on operating profit, and positive impacts of 610 million yen on earnings before income taxes.

Changes in Consolidated Balance Sheet

HIROSE ELECTRIC CO.,LTD.

Unit: hundred millions of yen

	Account	Mar 31, 2018	Dec 31, 2018	Increase / Decrease	Remark
ASSETS	Cash and Cash equivalents	694.0	516.8	-177.2	Payment of dividend, Corporate tax,etc
	Trade receivables and other claim	315.0	322.5	7.5	
	Inventories	121.9	139.0	17.1	
	Other financial assets	1,629.8	1,720.3	90.5	
	Tangible fixed assets	562.0	608.0	46.07	Miyako (machines and buildings) Headquarters (Molds and construction in progress accounts)
	Others	89.1	90.3	1.2	
	Total Assets	3,411.8	3,396.9	-14.9	

Total of cash in bank	1,866.4	1,709.9	-156.5

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This is followed by BS. As for assets, cash decreased from the beginning of the fiscal year, but it declined in 3Q in particular due to the payment of income taxes. Inventories increased by 1.7 billion yen from the beginning of the fiscal year, but increased by almost 300 million yen from the first half. Tangible fixed assets increased slightly in Miyako and Head Office in the 3Q. As a result, total assets were 339.69 billion yen, as previously stated. For your reference, the total amount of cash and deposits is 170.99 billion yen.

Changes in Consolidated Balance Sheet

Unit: hundred millions of yen

	Account	Mar 31, 2018	Dec 31, 2018	Increase / Decrease	Remark
Liabilities	Payables and other debt	195.3	194.8	-0.5	
	Income Taxes Payable	49.5	22.4	-27.1	
	Others	119.8	121.1	1.3	
		364.6	338.3	-26.3	
Shareholder's Equity	Capital stock and Capital surplus	210.8	207.2	-3.6	
	Retained Earnings	3,345.1	3,006.8	-338.3	Net Profit: 152.2 ー Dividend: 127.5 ー the Allotment of share and Cancellation: 363.0
	Treasury Stocks	-583.2	-226.2	357.0	The Allotment of share : +196.7 Cancellation of treasury stocks : +170.0 Share buy-back : △9.7
	Others	74.5	70.8	-3.7	
	Total	3,047.2	3,058.6	11.4	
Total Liabilities and Shareholder's Equity		3,411.8	3,396.9	-14.9	

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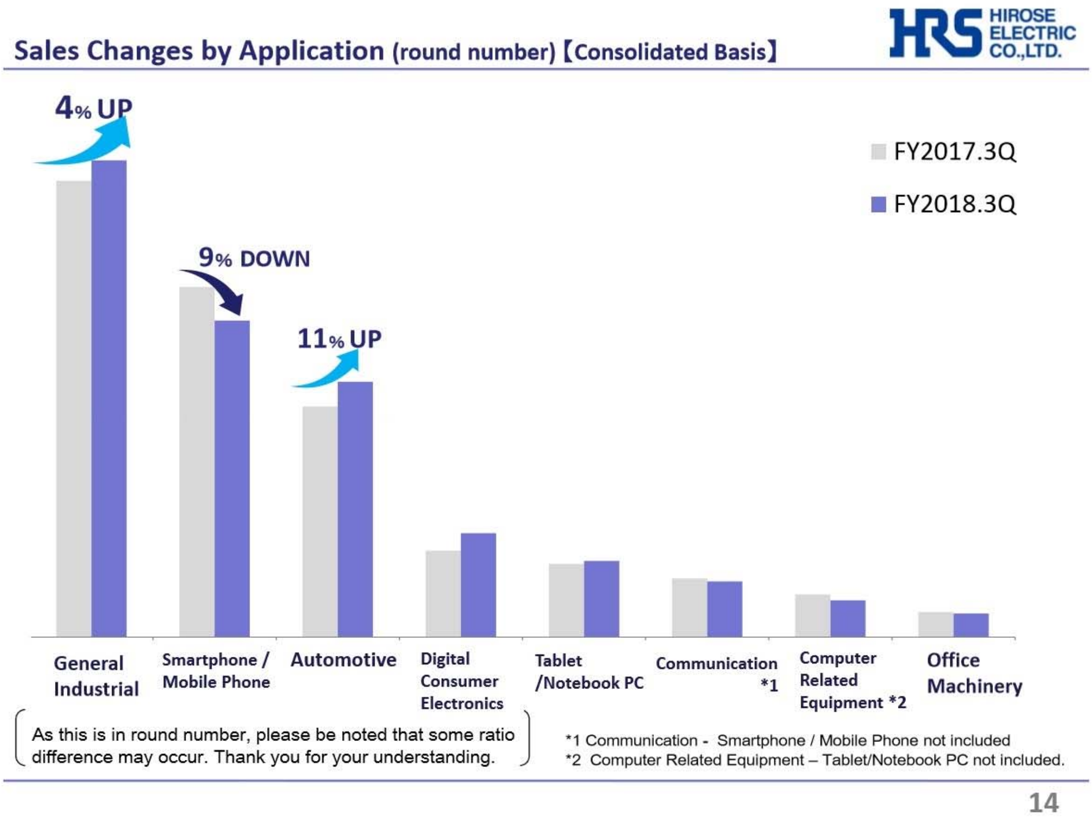
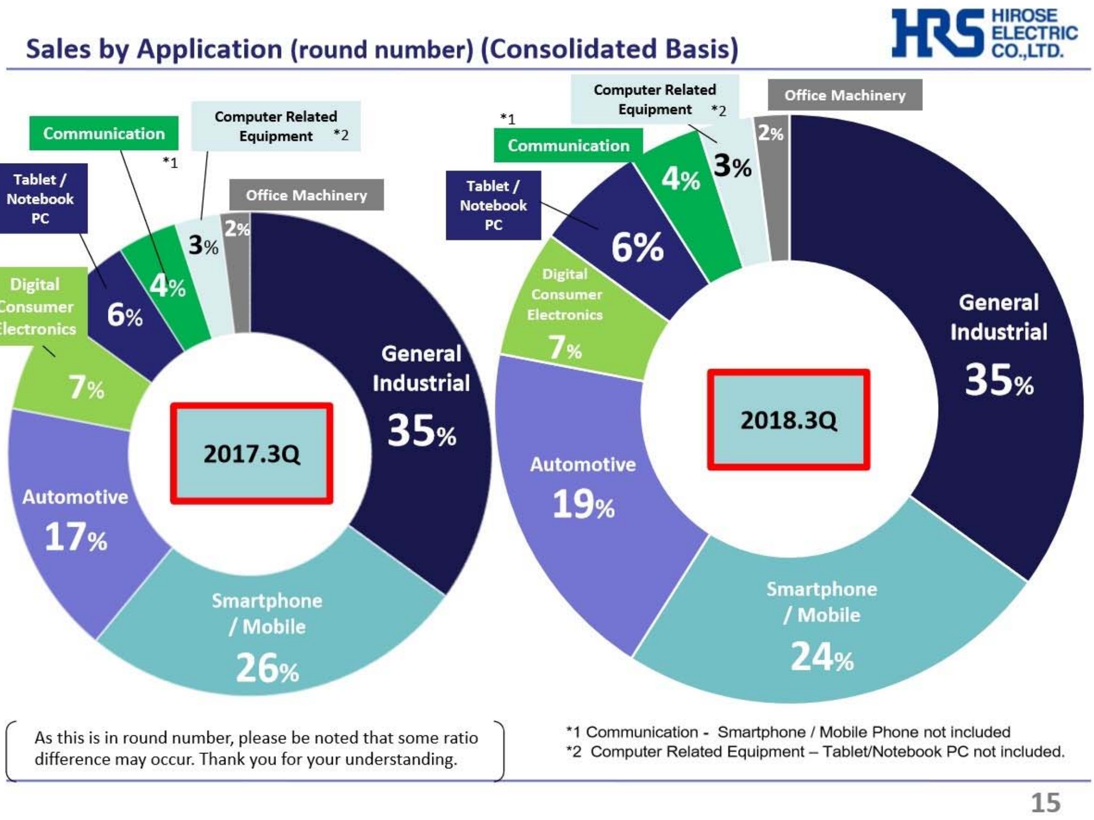
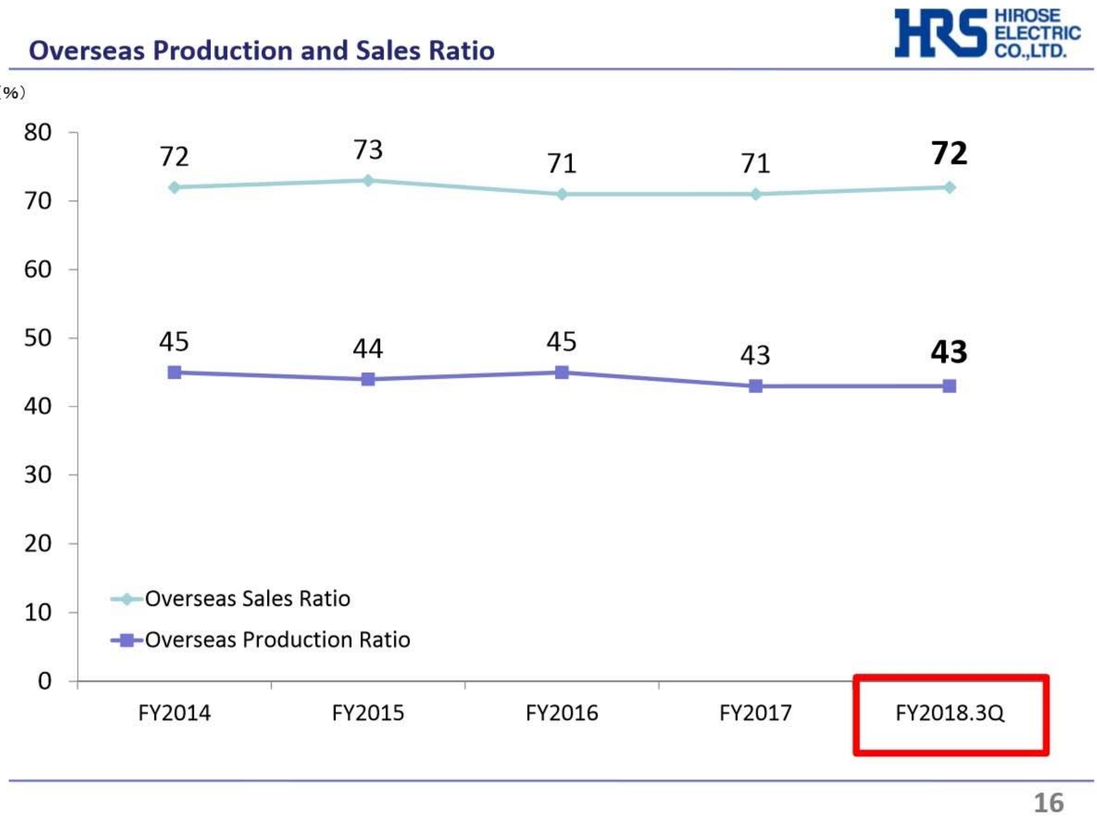
Next, liabilities and shareholder's equity. Total liabilities decreased to 33.83 billion yen, due to a decrease in income taxes payable. Shareholder's equity increased slightly as a result of the purchase of treasury stock in November, to a total of 305.86 billion yen.



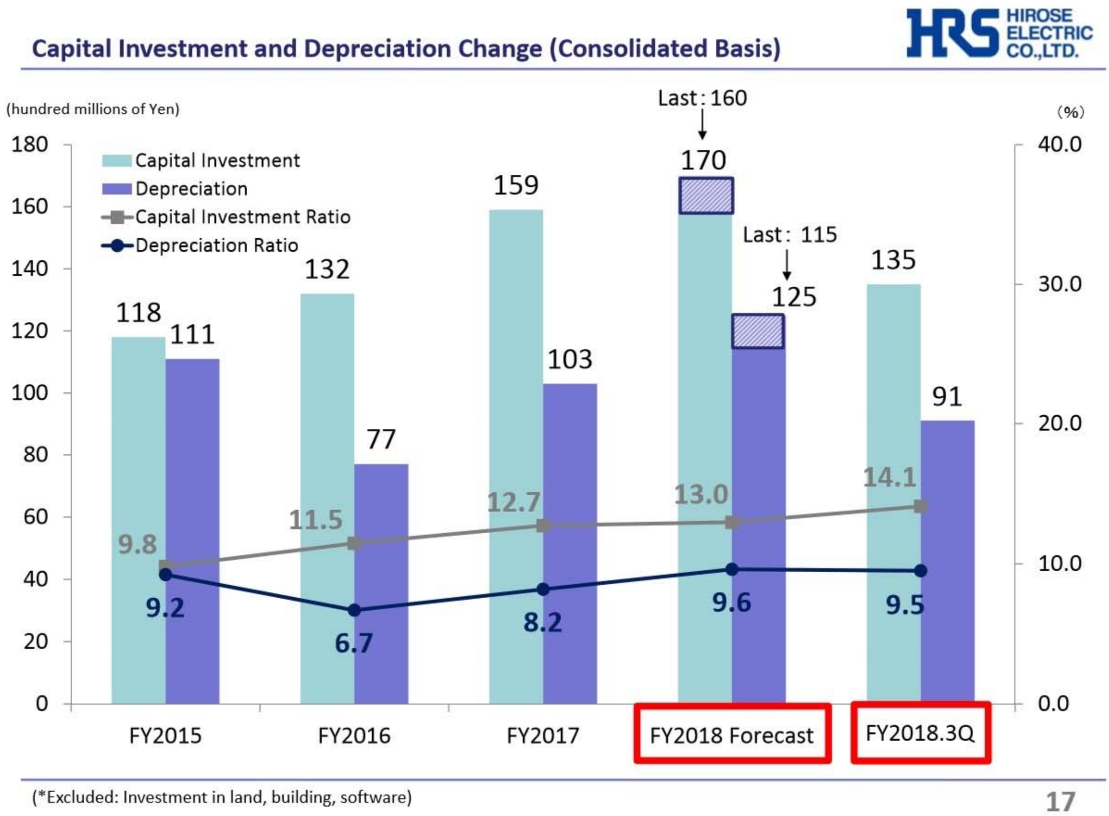
And next is year-on-year comparisons by field. As explained earlier in the business overview, in the three main fields, the components are General Industrial plus 4%, Smartphones minus 9%, and Automotive plus 11%. Although the other amounts are small and the figures are not provided, the results were as shown. As a supplementary explanation, I would like to explain some changes from 2Q to 3Q. These are also shown in the index. In the case of General Industrial machinery, it was minus 1%. For Smartphones, it was also minus, and this is also negative 1% from 2Q to 3Q. For Automotive was an increase of 4%. Digital Consumer Electronics recorded a big difference from the previous year. The figure thereof is not shown, but it is mainly due to an increase in wearables, audio, speakers, etc.



Next is the percentage of the total. In fact, there has been little change in the composition ratio of 2Q, the first half, and the cumulative 3Q. 35% for General Industrial, 24% for Smartphones, and 19% for Automotive. In 2Q, General Industrial accounted for 36% and Smartphones 23%. The other application composition ratios are exactly the same.



Next, the overseas production and sales ratio. The cumulative 3Q sales ratio was 72%. Since the first quarter was 68% and the first half was 71%, the 3Q total was slightly up. The production ratio was 43%. Since the first half was 43, the figures are the same. Currently, the overseas production ratio is the same as in the previous year. However, as the plan originally formulated at the beginning of this fiscal year, we are working to expand overseas production in view of the next fiscal year. Although we do not see the result yet, we are implementing measures to improve production and improve profitability. We expect that the production ratio will increase further.



Next, we will see the capital investment and depreciation. It is shown in the right-most position of the 3Q. Cumulative investments in 3Q totaled 13.5 billion yen, while it totaled 8.7 billion yen in 2Q. Cumulative 3Q was 13.5 billion yen. When we extracted the 3Q, we invested 4.8 billion yen. We invested heavily in 3Q, working to expand sales mainly to Automotive and General Industrial. This year's investments for production facilities have been brought forward. Full-fledged sales contributions will be made in the next fiscal year. And the depreciation costs were 9.1 billion yen, slightly increased by 3.1 billion yen compared to 6.0 billion yen in the first half. There is a positive portion of the investment during the term, so this is a slight increase, as planned.

In response to this, the landing forecast for the current fiscal year has been changed from the original one. This is shown on the left hand of the graph on 3Q's immediate left. Capital investment has been revised from 16.0 billion yen to 17.0 billion yen. We then changed the depreciation expense from 11.5 billion yen to 12.5 billion yen.

HIROSE ELECTRIC CO.,LTD.

Business Forecast for the Year Ending March 31,2019 (Consolidated) 【IFRS】

We revised down our forecast announced in May, 2018 because of the weak smartphone market and the world economic slowdown.

(Unit: Hundred millions of yen)

	FY2017 (FY ended Mar31, 2018) Actual		FY2018 (FY ended Mar31, 2019)			2018.3Q Over the Previous Actual Amount		For the Year Over the Previous Actual Amount	
	3Q (Apr-Dec)	For the Year	3Q (Apr-Dec) Actual	Forecast As of May, 2018	For the Year Forecast	Amount Change	%	Amount Change	%
Sales	951.7	1,251.4	**959.9**	1,300.0	**1,240.0**	+8.2	0.9%	-11.4	-0.9%
COGS Ratio	53.0%	53.8%	55.1%		55.8%				
Operating Profit	231.2	280.6	**199.9**	273.0	**240.0**	-31.3	-13.5%	-40.6	-14.5%
(%)	24.3%	22.4%	20.8%		19.4%				
Earnings before income tax	234.8	280.1	**212.4**	283.0	**254.0**	-22.4	-9.5%	-26.1	-9.3%
(%)	24.7%	22.4%	22.1%		20.5%				
Net Profit	163.5	191.1	**152.2**	200.0	**183.0**	-11.3	-6.9%	-8.1	-4.2%
(%)	17.2%	15.3%	15.9%		14.8%				
Income Per Share	—	548.80 yen	—	546.58 yen	500.60 yen				
Dividend Per Share	240 yen	480 yen	120 yen	240 yen	240 yen				
Consolidated Dividend Payout Ratio	—	87.5%	—	43.9%	47.9%				

Currency Rate	FY2017 Actual	FY2018 Forecast
1US$	110.85 yen	109.86 yen
1€	129.70 yen	128.12 yen
100won	10.00 yen	9.93 yen

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Next, this is the final point, but it is a forecast of business results. As we reported yesterday in a press release, we have revised our announced figures, which were announced in May 2018, at the beginning of the year, due to the sluggish smartphone business and the impact of friction between the United States and China and a sense of slowdown in the global economy. Full-year sales forecast is 124 billion yen, decline of 1.14 billion yen, or 0.9%, year on year. Operating profit is 24.0 billion yen and the profit margin is 19.4%, which are decline of 14.5% or 4.06 billion yen year on year. Earnings before income taxes is 25.4 billion yen, and the margin is 20.5%. We have revised down net profit by 14.8%, or 18.3 billion yen.

Earnings per share is expected to be 500.6 yen. We paid a dividend of 120 yen per share in the first half of the fiscal year, and we plan to maintain the dividend at the current level of 120 yen per share in the second half of the fiscal year. The dividend payout ratio is expected to be 47.9% as a result. The forecasts of the currency rate for the year are 109.86 yen for the dollar, 128.12 yen for the euro, and 0.093 yen for the won. 100 won is 9.93 yen. These forecasts are based on 4Q assumptions of 105 yen to the U.S. dollar, 124 yen to the euro, and 0.1 yen to the won.

I'm sorry that I'm not prepared on the slide, but would make an oral supplementary explanation for the forecast of the annual growth rate by application. In the first half of the year, the forecast for smartphones was negative 3% per year. At present, it is difficult to predict sales at the end of the fiscal year, but for the time being, we have changed to negative 10% from January and February, taking into account the slump in sales in December.

As for Automotive, we changed the rate of increase to 10% at the beginning of the year and to 12% in the first half of the year. However, we have changed the rate of increase to 10% due to the expected decrease in January sales in Japan. In the General Industrial, we forecast flat sales of 0% in the first half of the fiscal year.

However, although the end of the third quarter is normally a time when demand will increase, the forecast for sales is uncertain, so we set it severely. Therefore, we are forecasting a decline of 2% for the year.

I am honest to say that it is quite difficult to read 4Q, but I intended to assemble it with conservative numbers in a sense. In addition, Mr. Fukumoto will explain this matter later. That's all from me. From now, Mr. Fukumoto, Acting Group President of Administration Group will explain.

Fukumoto: Good morning. I am Fukumoto, Administration Group of Hirose Electric. Thank you very much for the large number of visitors today. I'm afraid I've gotten a bit tight, so I'd like to think about the setting of the venue next time.

Mr. Suzaki explained the outline of the financial results, as well as the outline of the financial outlook. First of all, until 3Q, our performance relatively went well until November, but it was weak in December, which was unexpected. However, the cumulative sales up to the 3Q was 95.99 billion yen, which was the record high for us, actually. The sales from October to December are about 34 billion yen. This is also a record on a quarter basis, so we expected at the beginning of this fiscal year and in October and November, that we can reach the figure which we presented to you. Unfortunately, orders dropped sharply, especially in December.

In one example, if the average order for the second quarter of three months is 100, the order for December is about 72. This is particularly true for Smartphones and General Industrial, and we had to look at the 4Q as an extension. Frankly, whether this situation lasts three months, six months, or three years is not clear at this point. As our President, Ishii, has spoken several times at financial results briefings, from a medium-term perspective, we will grow and increase profits with three pillars, id est, Smartphones and other consumer products, Automotive, and General Industrial. This baseline is unchanged.

However, we regret that the operating profit margin will fall below 20% this year. We expect at 19.4%. The 19.4 figures are not necessarily scratch comparisons because we are now reporting results in IFRS, but in 2011, when we experienced the Great East Japan Earthquake and the yen against the U.S. dollar was moving in the 80-yen range, I think, operating profit was around 20.6%. The situation is now worse than that.

We will continue to make the necessary upfront investments over the medium term, of course. However, we will have to reduce the amount of money that we need to pay if the amount of money that we receive is small. From this 4Q to the next fiscal year, we will thoroughly implement cost reduction activities. Or cost savings. For example, travel expenses or overseas travel. Or to make more use of video conferencing, Skype, and Teams. Or we need to carefully examine capital investment.

Furthermore, we are increasing the number of mid-career employees to strengthen our resources. I believe that we must check the level of utilization of human resources once more. Alternatively, I think we must also thoroughly promote IT.

I can't tell you what the effect is at this stage. From now on, we will carry out these activities in a well-planned manner. In any case, we will invest the necessary investments and resources, but in the other case, we will carefully look at the contents and further strengthen management that eliminates waste.

Finally, I would like to discuss two additional topics after the announcement of the first half of this fiscal year. On November 15, we repurchased approximately 75,000 shares of our common stock. The total amount is approximately 900 million yen. This may be said to be extremely small in terms of shareholder returns and capital efficiency, but we have done this first.

In addition, as announced on December 28, we actually had connectors as the main business, but we had some set businesses, in other words, medical equipment and health equipment businesses. We have been engaged in it for about 40 years, and it has been very profitable, but the scale of the project has been small.

As written here, we have transferred our business to a company in Kawaguchi, Saitama, which celebrates the 100th anniversary. This is an unlisted company, but a specialist company. We concluded the transfer on January 31 for the purpose of expanding its business or allowing the employees to do more rewarding work.

I will finish my supplementary materials.

Disclaimer

In this material, there are descriptions based on current estimation by Hirose Electric.

Hirose cautions you that a number of important risks, uncertainties and others could cause actual results to differ materially from those discussed in the *forward-looking statements. Thank you for your understanding.

*Forward-looking statements include, but are not limited to, those statements using words such as "believe," "expect," "plans," "strategy," "prospects," "forecast," "estimate," "project," "anticipate," "aim," "may" or "might" and words of similar meaning in connection with a discussion of future operations, financial performance, events or conditions. These statements are based on management's assumptions and beliefs in light of the information currently available to it.