



HIROSE ELECTRIC CO., LTD.

Q3 Financial Results Briefing for the Fiscal Year Ending March 2020

February 6, 2020

Event Summary

[Company Name]	HIROSE ELECTRIC CO., LTD.	
[Event Type]	Earnings Announcement	
[Event Name]	Q3 Financial Results Briefing for the Fiscal Year Ending March 2020	
[Fiscal Period]	FY2019 Q3	
[Date]	February 6, 2020	
[Time]	10:30 – 11:31 (Total: 61 minutes, Presentation: 38 minutes, Q&A: 23 minutes)	
[Venue]	4F Tekko Conference Room 2+3+4 Tekko Bldg., 1-8-2 Marunouchi Chiyoda-ku, Tokyo, 100-0005	
[Venue Size]	349 m ²	
[Number of Speakers]	2	
	Hiroshi Fukumoto	Corporate Board Director, Group President, Administration Group
	Hideo Suzuki	Manager, IR Office, Administration Group

Presentation

Suzaki: Good morning. We will start the briefing on HIROSE ELECTRIC CO., LTD.'s financial results.

We sincerely thank you for your attendance today. This is Suzaki from the IR Office of HIROSE ELECTRIC CO., LTD. Today, I will serve as moderator.

First of all, we'd like to confirm the materials we distributed at the reception. On the top is today's briefing material. A press release and a summary of financial results released yesterday on the Tokyo Stock Exchange are included below. It consists of three parts. If anything is missing, we will provide them right away, so please check.

The English version of today's briefing materials will be later disclosed on our website as well as on the Tokyo Stock Exchange, but we have a few copies available at reception so, if you need them, please receive them at the reception desk when you leave.

Now we will start.

Business Situation of FY2019 3Q (Apr,2019 – Dec,2019)

FY2019 Third Quarter (Apr - Dec)	Order 934.3 hundred million yen (Year-on-Year -4.1%) Sales 915.3 hundred million yen (Year-on-Year -4.6%) Operating profit 162.1 hundred million yen ※Profit Ratio 17.7 % (Year-on-year -18.9%)
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The result was decreased sales and profit because the sense of stagnation caused by a deterioration in economic confidence due to US-China trade friction, the slowdown in the Chinese economy and sluggish sales of automobiles in the US, Europe and China has been continuing.

Industrial market

Regarding the sales for General Industrial, down side trend from second half of the previous fiscal year has been stopped but it has been taking time to recover. The sales decreased by 19% YoY.

Smartphone

The 3Q sales for smartphone decreased compared to 2Q, but we are still maintaining high level of sales. It has increased by 5% YoY.

Automotive

Because of poor sales in automobile, the sales decline for our existing products has been prolonged. Therefore the sales for automotive were up 1% from the same quarter of the previous year.

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The first three pages provide an overview of our business.

As cumulative results for the third quarter, orders amounted to JPY93.43 billion, a YoY decrease of 4.1%. Sales were JPY91.53 billion, down 4.6% YoY. Operating profit was JPY16.21 billion, down 18.9% YoY. The profit margin was 17.7%. Sales and profits both declined.

From the overview by application, regarding the general outcome of the third quarter, trends in the second quarter carried on. I will elaborate on the details when I walk you through each business.

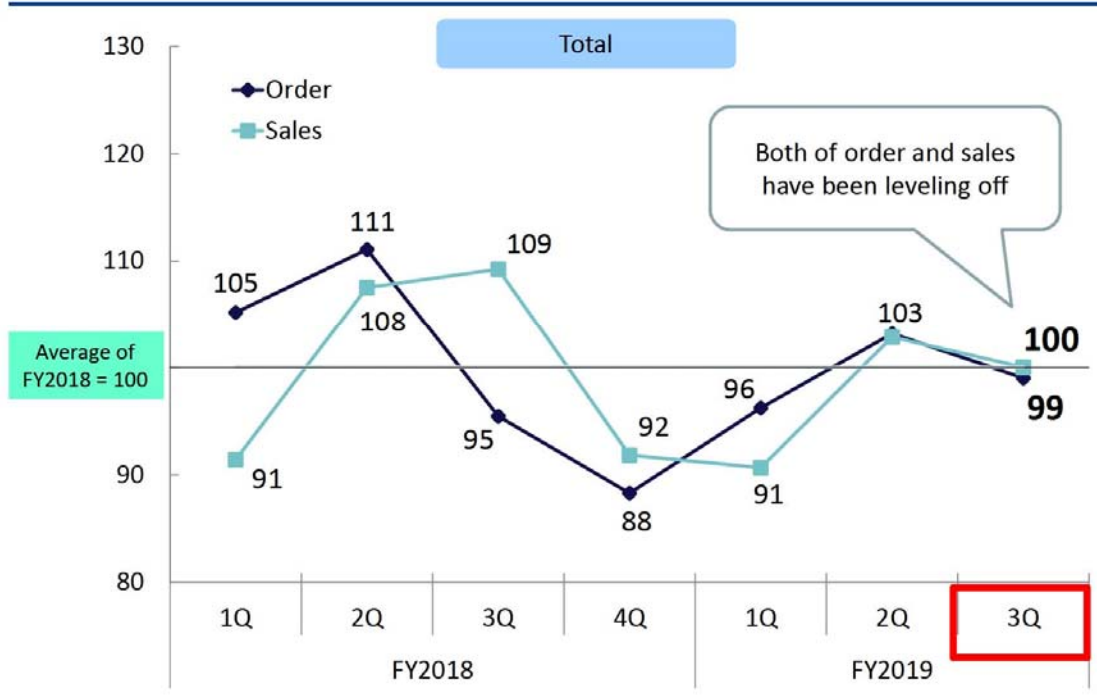
Overall, the US/China trade friction led to the deterioration of the landscape from spring through May and June, and a feeling of stagnation persists with the slowdown of the Chinese economy and poor results in automobile sales. These factors were behind the decrease in sales and profit.

As for sales to the industrial market, although the downward trend that has continued since the latter half of the previous fiscal year is coming to a halt, it is taking time to recover. The third quarter was also slightly weaker than originally anticipated. The cumulative result is a YoY decrease of 19%.

With regard to sales of smartphones, although third quarter results declined from the second quarter, it has remained at a fairly high level. We saw a 5% YoY increase.

As for sales to automotives, sales of existing products have continued to decline due to sluggish sales of automobiles themselves. We are proceeding with the launch of new products as planned, and sales of such products are mostly in line with the plan, but with the decline in existing products, sales were almost unchanged YoY, with an increase of 1%.

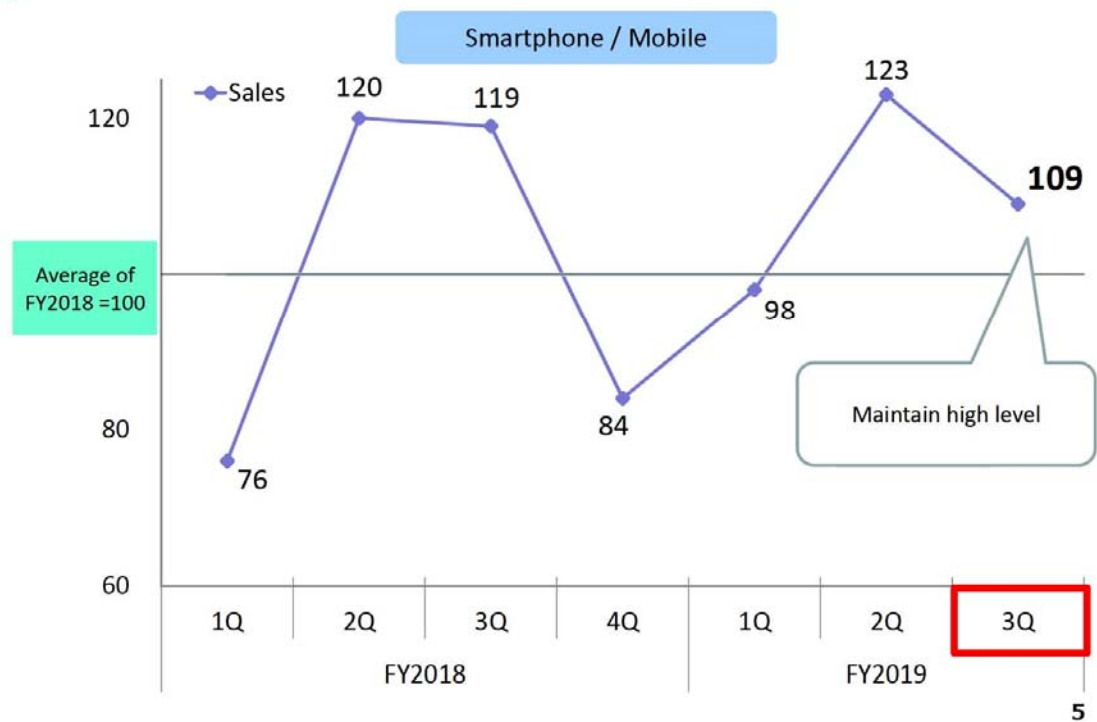
FY2018 1Q – FY2019 3Q Orders and Sales (Consolidated Basis, Index Number)



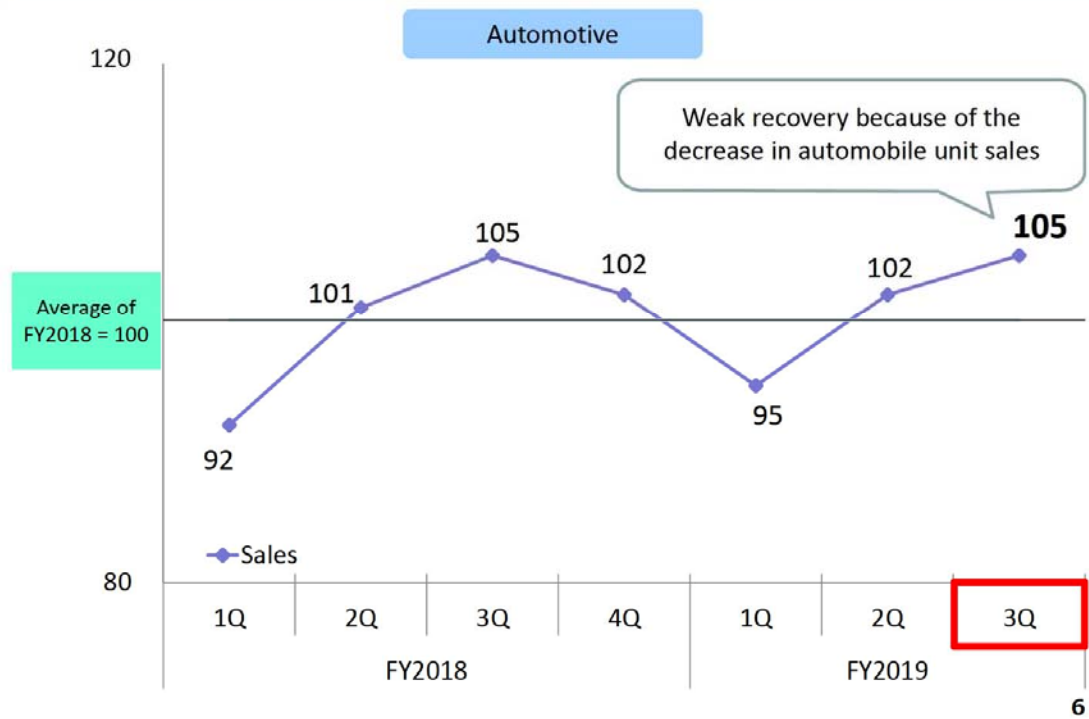
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I will proceed with a little more explanation with some graphs. First of all, both orders and sales remained flat overall. As shown in the graph with the previous year as 100, the result is 100 in sales and 99 in orders received.

FY2018 1Q – FY2019 3Q Sales by Markets (Consolidated Basis, Index Number)

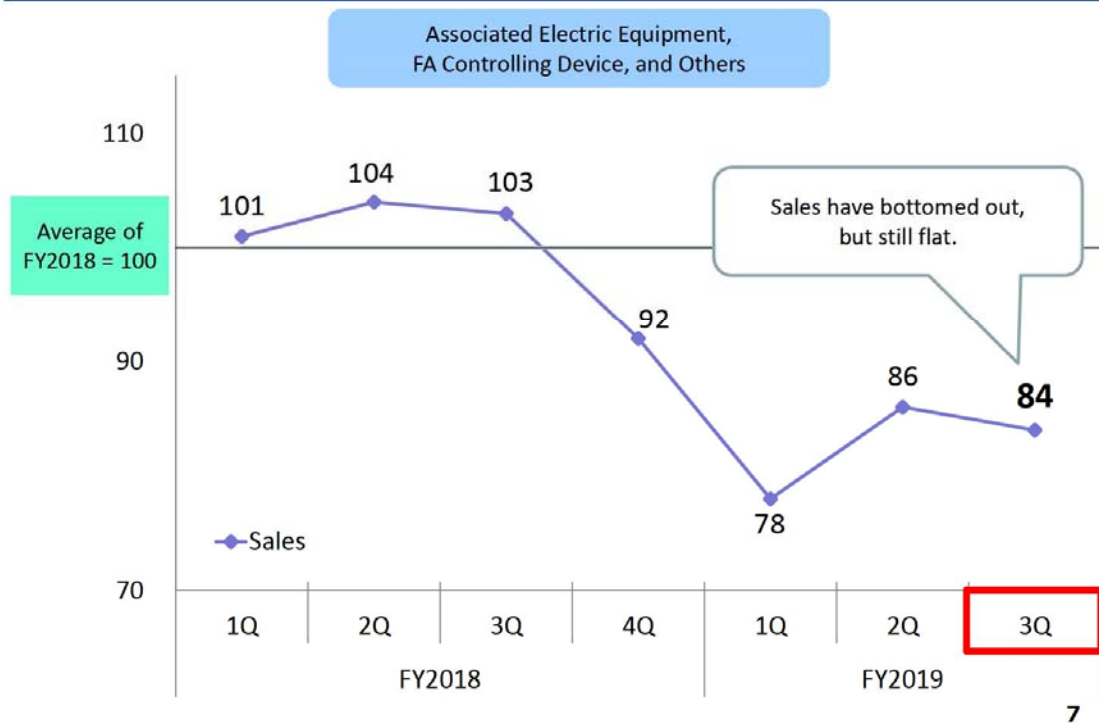


Next is for smartphones. This index dropped from 123 in the second quarter to 109 in the third quarter. We had originally expected that figures would fall in Korea, and China would be past peak, as a seasonal tendency. In a sense, if we add the second quarter and third quarter, we have been proceeding at high levels in the current fiscal year.



Next is Automotive. Recovery is weak in the aspect of sluggish sales of automobiles themselves. At first glance, the third quarter seems to show a recovery trend, but we had been hoping it to be a little higher. In that sense, it was a little disappointing.

FY2018 1Q – FY2019 3Q Sales by Markets (Consolidated Basis, Index Number)



Lastly for industrial machinery. We feel that sales have bottomed out. Sales are not all bad and some orders are turning around.. In the industrial machinery industry as a whole, the sense of recovery has yet to be realized. It has hit bottom, but has continued to be flat.

We do not disclose the order numbers so, just as an impression, we feel that orders are heading in a better direction compared to sales. Although we do not see a strong return, we are seeing signs of recovery.

(Unit : hundred millions of yen)

	FY2018 3Q (FY ended Dec31, 2018)	FY2019 3Q (FY ended Dec31, 2019)	Increase / Decrease (YoY)	Increase / Decrease Ratio (YoY)
Sales	959.9	915.3	-44.6	-4.6%
COGS Ratio	55.1%	57.2%	2.1	
SGA Ratio	24.1%	24.9%	0.8	
Operating Profit	199.9	162.1	-37.8	-18.9%
(%)	20.8%	17.7%	-3.1	
Earnings before income tax	212.4	169.2	-43.2	-20.3%
(%)	22.1%	18.5%	-3.6	
Net Profit	152.2	119.8	-32.4	-21.3%
(%)	15.9%	13.1%	-2.8	
Total Assets	3,396.9	3,441.9		
Shareholder's Equity Ratio	90.0%	89.2%		
Income Per Share	416.08yen	328.53yen		

(Note) Cost for damage from flood in Koriyama plant (1.01 billion yen) is included

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This is the income statement. The cumulative sales of the third quarter were JPY91.53 billion. This represents a YoY decrease of 4.6%, or JPY4.46 billion. Operating profit was JPY16.21 billion, a profit margin of 17.7%, and a YoY decrease of 18.9%, or JPY3.78 billion. Income before taxes and net profit were JPY16.92 billion and JPY11.98 billion, respectively. The balance of total assets is JPY344.19 billion, and I will discuss this in more detail with the balance sheet later on.

Then, as written on the bottom right, the cost of flood damage in Koriyama. Approximately JPY1.01 billion was actually recorded in this third quarter. This is mainly about our plant, Koriyama Hirose, in Koriyama City, Fukushima Prefecture. It is close to the Abukuma River, where the riverbank collapsed. The first floor of the plant was immersed in a little over one meter of water.

The water withdrew quickly in one or two days, but there were production facilities on the first floor as well as building, machinery for elevators and air-conditioning systems, which were flooded. In particular, anything that uses motors became unusable. Therefore, the Company has posted a considerable loss on retirement of equipment, which accounts for a significant portion of this JPY1 billion.

We did not have such a large amount of inventory, so it was not that large. In addition, there are some costs and expenses. I would like to explain this again later. As stated in the notes in yesterday's financial results, insurance coverage is to be provided.

We have already provided the insurance company with property and casualty-related documents, so they should be finalized within this fiscal year. However, in the third quarter, the compensation amount is not included in the income statement. This is currently under discussions. Therefore, it is expected that about the same amount will be recovered.

Major Changes over prior same period FY2019 Third Quarter

(Unit : hundred millions of yen)

■ Sales	44.6 hundred million yen Decreased (959.9 → 915.3)
	Non consolidated Hirose : -43.9 Subsidiaries : -0.7
■ COGS Ratio	2.1 point Deteriorated (55.1% → 57.2%)
	Purchase Cost Ratio : 38.5% → 39.1% Depreciation Ratio : 8.2% → 10.2%
■ SGA Ratio	0.8 point Increased (24.1% → 24.9%)
	231.3 → 227.5 (3.8 hundred million yen decreased)
■ Financial revenue / expense	5.3 hundred million yen Deteriorated (+12.5 → +7.2)
	Foreign Exchange Gain / Loss : +3.6 → -2.5

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This table summarizes changes in each major item. Sales declined by JPY4.46 billion, but on a non-consolidated basis it was JPY4.39 billion. The number of subsidiaries remained almost unchanged.

The cost of sales ratio worsened by 2.1 percentage points and the purchase cost ratio was slightly worse. This is because the sales of industrial machinery was decreased than expected due to the impact of the mix. This is largely due to changes in the mix.

The Company's depreciation expense ratio has risen since last year. Rather than worsening, we have been making upfront investments in the automotive business, and we have an awareness of the situation and is as planned.

As for selling, general and administrative expenses, although the ratio has worsened by 0.8 percentage points, the amount has decreased by JPY380 million from the previous year.

With regard to the financial balance, since the yen has been appreciating this fiscal year compared to the previous fiscal year, it is worsening this year.

(Unit : hundred millions of yen)

	Sales	Operating profit	(%)	Earnings before income tax	(%)
FY2018 3Q Actual	959.9	199.9	20.8%	212.4	22.1%
Exchange rate	-29.3	-12.1		-18.6	
Depreciation cost increase		-16.2		-16.2	
Labor cost increase		-1.0		-1.0	
Decrease in the product	-15.3	-6.8		-6.8	
Profit on the sale of land		8.4		8.4	
Cost for damage from flood in Koriyama plant		-10.1		-10.1	
Others		-0.2		1.1	
Total amount of change	-44.6	-37.8		-43.2	
FY2019 3Q Actual	915.3	162.1	17.7%	169.2	18.5%

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Next, the changes are listed with some more numbers. The impact of the exchange rate was JPY2.93 billion on sales and JPY1.2 billion on operating profit. As I mentioned earlier about the depreciation expense ratio, the increase in depreciation expenses affected the operating profit by about JPY1 billion.

In terms of volume, the impact was about JPY1.5 billion on sales and JPY700 million on profit, and became a negative factor for profit.

The profit from the sale of land, as explained in the financial briefing for the first quarter, is JPY840 million this fiscal year. This is a one-time factor for the current fiscal year.

As mentioned earlier, the flood damage in Koriyama had an impact of JPY1.01 billion on operating profit. There is a JPY1 billion reduction from a third quarter point of view, but we factored in the prediction that this will be recovered in the fourth quarter.

Currency Effect for FY2019 Third Quarter



	FY2018 3Q	FY2019 3Q
Currency rate : US\$	111.14 yen	108.67 yen
Currency rate : €	129.49 yen	121.05 yen
Currency rate : 100won	10.04 yen	9.23 yen



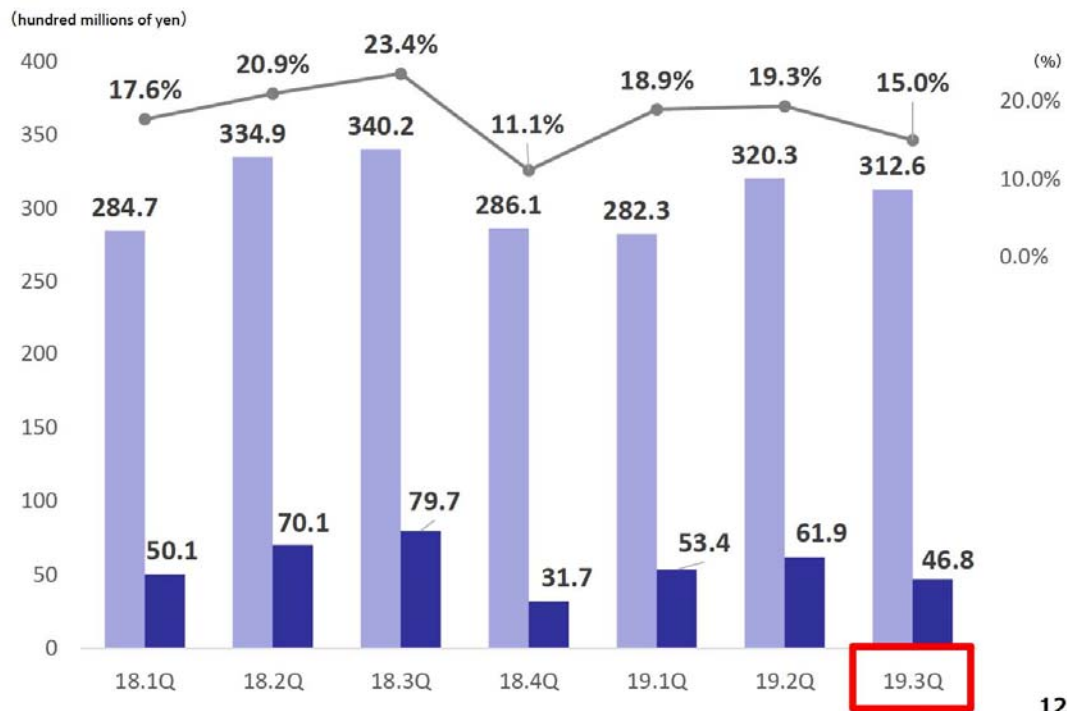
(Unit : Hundred millions of Yen)

YoY Currency effect amount	
Sales	-29.3
Operating Profit	-12.1
Earnings before income tax	-18.6

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This shows just the effects of exchange rates. As mentioned earlier, the yen's appreciation against the US dollar, euro, South Korean won, and other currencies led to a decrease of JPY2.93 billion in sales, a decrease of JPY1.21 billion in operating profit, and a JPY1.86 billion decrease in income before taxes.

FY2018.1Q - FY2019.3Q Quarterly Sales and Profit History



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Next, the sales and profits by quarter are shown in the graph. For the third quarter only, sales are JPY31.26 billion, operating profit is JPY4.68 billion, and the profit margin is 15%. Excluding the JPY1 billion impact from Koriyama, the rate will be in the 18% range, which is our actual perception.

Changes in Consolidated Balance Sheet

Unit: hundred millions of yen

	Account	Mar 31, 2019	Dec 31, 2019	Increase / Decrease	Remark
A S S E T S	Cash and Cash equivalents	523.2	466.7	-56.5	Payment for dividend, purchase of investment in securities and others.
	Trade receivables and other claim	295.4	317.1	21.7	Trade receivables +18.7
	Inventories	139.4	145.6	6.2	
	Other financial assets	1,728.8	1,733.3	4.4	
	Tangible fixed assets	627.4	639.7	12.3	Acquisition of second building of Kikuna office
	Right-of-use assets	—	46.8	46.8	Adopted IFRS16 and lease transaction has been appropriated as assets
	Others	100.0	92.7	-7.3	
	Total Assets	3,414.3	3,441.9	27.6	
	Total of cash in bank	1,727.6	1,649.2	-78.4	

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This is the balance sheet. There has been no significant change in the trend, but since the comparison is made with the beginning of the fiscal year or end of March, cash has been reduced through the payment of interim dividends. Trade receivables have increased slightly. In terms of tangible fixed assets, there is an increase where it says “second building of Kikuna office”, where we are expanding the mold development facility.

From this fiscal year, we have adopted IFRS16, or so-called lease accounting, and assets and liabilities have been recorded accordingly.

Changes in Consolidated Balance Sheet

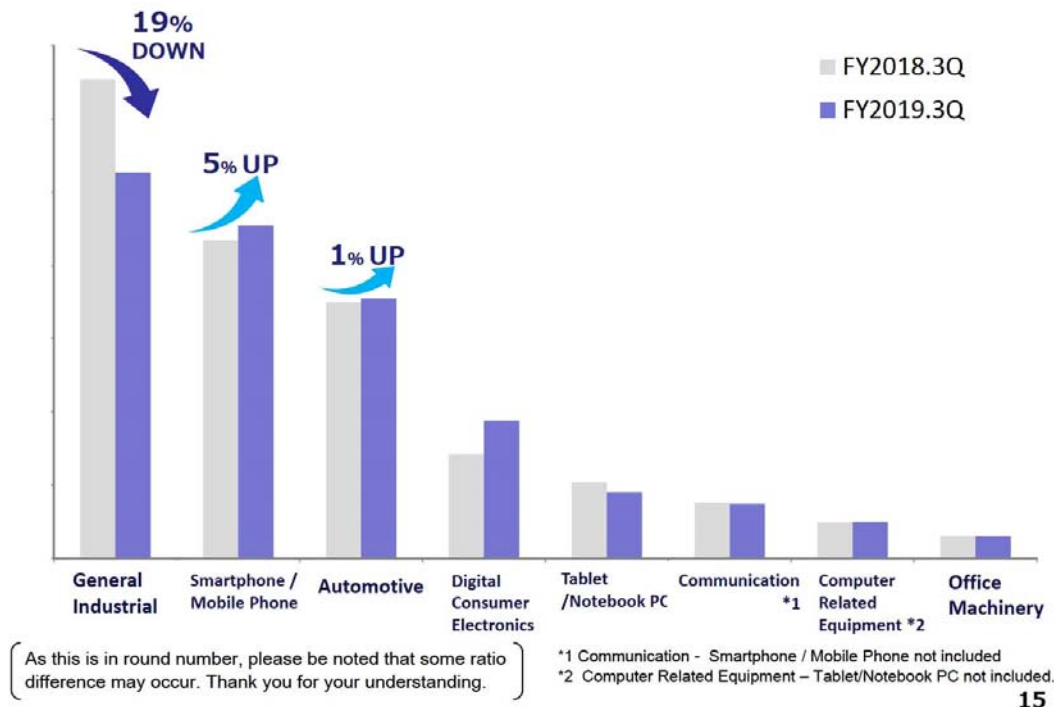
Unit: hundred millions of yen

	Account	Mar 31, 2019	Dec 31, 2019	Increase / Decrease	Remark
Liabilities	Payables and other debt	193.1	177.2	-15.9	Accounts payable-property facilities Δ 9.8 Accounts payable Δ 7.6
	Lease liabilities	—	46.9	46.9	Application of IFRS16
	Income Taxes Payable	30.9	21.1	-9.8	Interim payment of corporate tax
	Others	117.1	125.3	8.2	
	Total	341.0	370.4	29.4	
Shareholder's Equity	Capital stock and Capital surplus	207.2	207.1	-0.1	
	Retained Earnings	3,033.5	3,051.0	17.5	Net Profit: 119.7, Dividend Δ 87.5, Transfer because of cancellation of treasury stocks Δ 14.9
	Treasury Stocks	-232.1	-244.6	-12.5	Acquisition of treasury stocks Δ 27.5 Cancellation of treasury stocks : +14.9
	Others	64.8	58.0	-6.8	
	Total	3,073.3	3,071.5	-1.8	
Total Liabilities and Shareholder's Equity		3,414.3	3,441.9	27.6	

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The following page shows liabilities and net assets. Items increased this fiscal year are due to lease accounting.

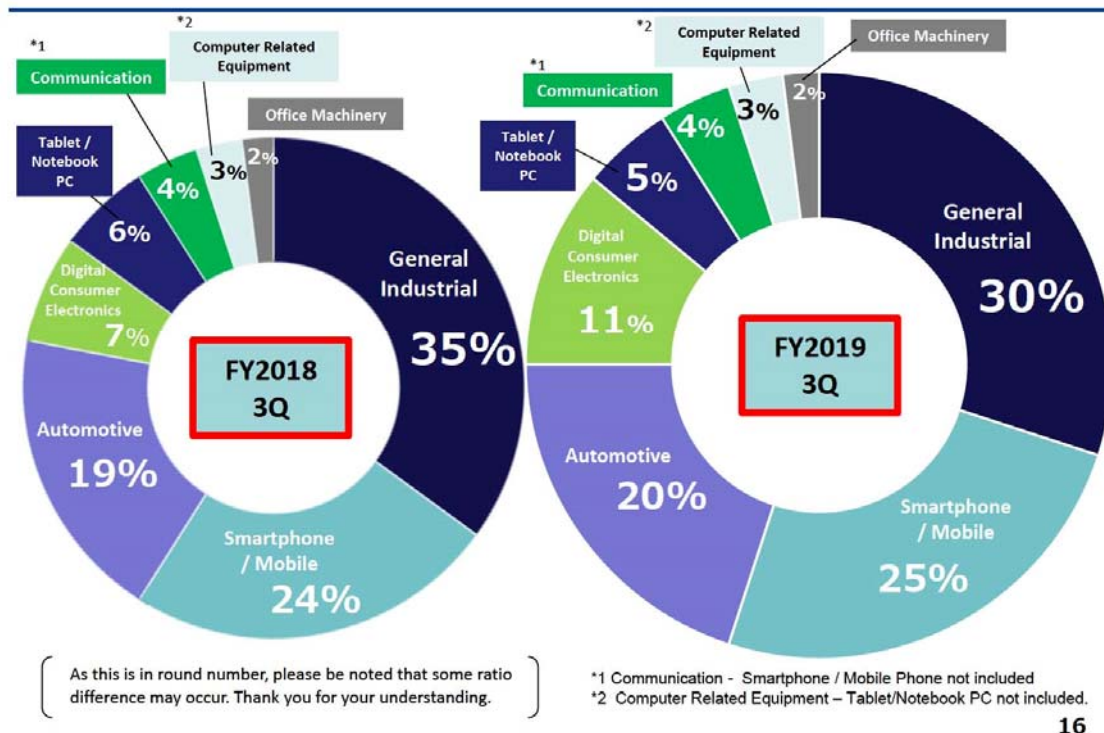
Sales Changes by Application (round number) [Consolidated Basis]



Next, I will discuss trends by field. As I mentioned at the beginning, sales of industrial machinery applications declined 19% from the previous year, sales for smartphones are up 5%, and sales for automotives are up 1%.

Production of digital consumer electronics tends to be still strong. Although we have not disclosed any figures, it is actually doing well, about 30% higher on a YoY basis. This trend has remained unchanged from the second quarter.

Sales by Application (round number) (Consolidated Basis)



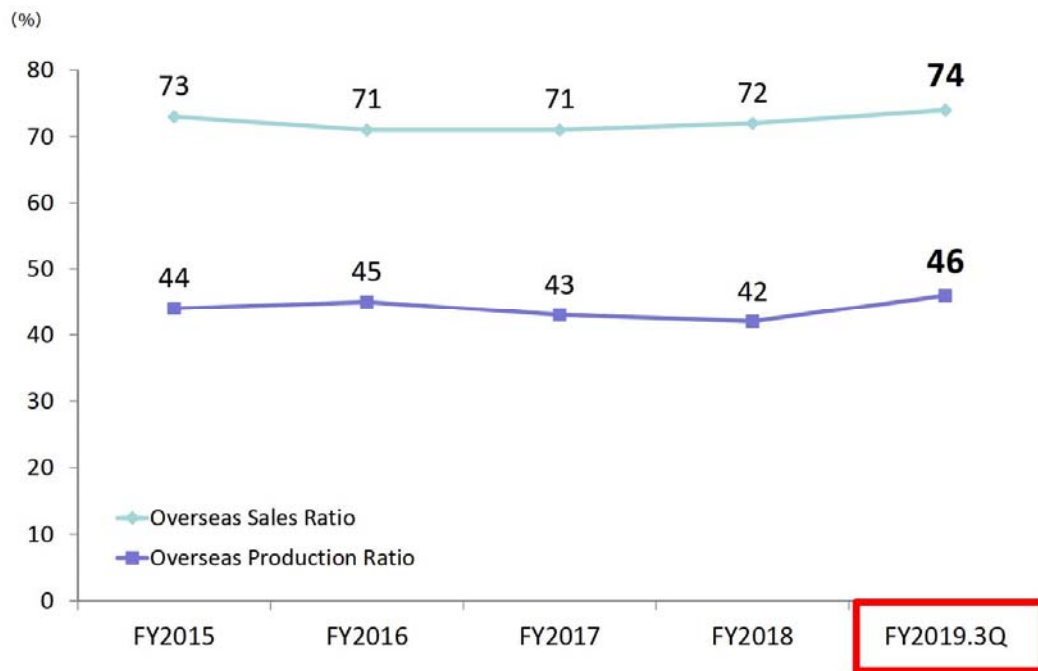
This is the breakdown of sales by application. This structure is roughly the same as that of the second quarter.

The portion of industrial machinery has fallen from 35% in the previous fiscal year to 30%, down by about five points. Meanwhile, digital consumer electronics rose to 11%.

I forgot to mention about digital consumer electronics. In the past, this category was driven by digital cameras, televisions, and so on, but, recently, the earphones and speakers produced in China have been very strong, as consumer items that connect to smartphones are doing very well, especially among young consumers.

We have benefited from the wide range of orders we receive from top makers. Some of our products originally developed for smartphones are directly being repurposed. This is a good business for us, and customers are able to obtain relatively new products at a low price. We have benefited from this.

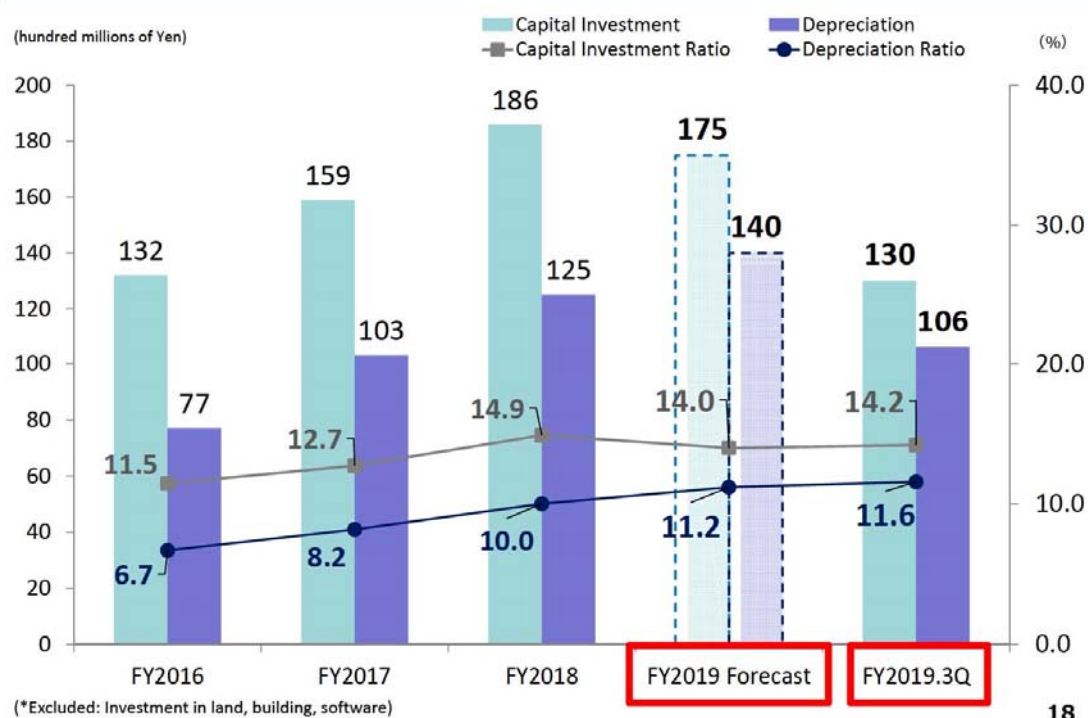
Overseas Production and Sales Ratio



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Next is the overseas ratio. The sales ratio increased from 72% in the previous fiscal year to 74%. The production ratio has risen from 42% in the previous fiscal year to 46% in the third quarter, so both sales and production are rising. This is because the ratio in South Korea is rising. In particular, production is increased for micro connectors for smartphones and products for the consumer market. We are increasing the production of HIROSE KOREA CO., LTD., our subsidiary in South Korea.

Capital Investment and Depreciation Change (Consolidated Basis)



Next is equipment and depreciation. The right-hand side of the graph shows the cumulative total for the third quarter: JPY13 billion for capital investment and JPY10.6 billion for depreciation. As a supplement to the above, the cumulative R&D expenses for the third quarter totaled JPY9.2 billion.

The annual forecasts for equipment and depreciation are unchanged from the initial forecasts. There is no change from the second quarter, either. In general, it is being carried out in accordance with the plan. However, we invested in equipment with some concentration on the third quarter. JPY4.2 billion was used as capital investment in the third quarter.

This larger figure is due to replacing the equipment to restore Koriyama. Since we have completed the process to some extent, we believe that fourth quarter will return to a regular level, and the full-year total will be within JPY17.5 billion.

Annual depreciation is projected at JPY14 billion yen. We might exceed it slightly, but it should be roughly in line with our expectations.

There are no changes to the plan for R&D expenses, which are expected to total JPY13 billion.

Business Forecast for the Year Ending March 31, 2020 (Consolidated)

There is no change from previous figures (Nov, 2019)								
(Unit: Hundred millions of yen)	FY2018 (FY ended Mar31, 2019) Actual		FY2019 (FY ended Mar31, 2020)		3Q cumulative total Over the Previous Actual Amount		For the Year Over the Previous Actual Amount	
	3Q Actual	For the Year	3Q Actual	For the Year Forecast (Nov, 2019)	Amount Change	%	Amount Change	%
Sales	959.9	1,245.9	915.3	1,250.0	-44.6	-4.6%	+4.1	+0.3%
COGS Ratio	55.1%	56.1%	57.2%	58.2%				
Operating Profit	199.9	231.6	162.1	220.0	-37.8	-18.9%	-11.6	-5.0%
(%)	20.8%	18.6%	17.7%	17.6%				
Earnings before income tax	212.4	246.7	169.2	230.0	-43.2	-20.3%	-16.7	-6.8%
(%)	22.1%	19.8%	18.5%	18.4%				
Net Profit	152.2	178.9	119.8	175.0	-32.4	-21.3%	-3.9	-2.2%
(%)	15.9%	14.4%	13.1%	14.0%				
Income Per Share	—	489.46 yen	—	479.94 yen				
Dividend Per Share	120 yen	240 yen	120 yen	240 yen				
Consolidated Dividend Payout Ratio	—	49.0%	—	50.0%				
					Currency Rate	FY2018 Actual	FY2019 3Q Actual	FY2019 Forecast
					1US\$	110.26 yen	108.67 yen	108.75 yen
					1€	129.85 yen	121.05 yen	121.29 yen
					100won	10.04 yen	9.23 yen	9.23 yen

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Finally, regarding the annual forecast, there are no changes from the announcement made in November based on the second quarter. We plan to achieve sales of JPY125 billion, an operating profit of JPY22 billion, and a profit margin of 17.6%.

With regard to the annual forecast for the exchange rate, as we are seeing a trend of a slightly weaker yen, our assumption is 108.75 yen to the dollar. The euro and South Korean won assumptions are listed here.



In this fiscal year, Hirose's connectors have selected as Innovation Award Honoree's for CES 2020 in two categories.

CES : The world's largest trade fair in consumer electronics sector held annually in Las Vegas, USA every January. "CES Innovation Awards" is the international prize which recognize remarkable products in 28 product fields.

【 FX26 】 Vehicle Intelligence & Transportation Category

FX26 Series was developed for internal connection of powertrains including inverter and motor controllers, a vital component in EV and HEVs. It is a floating Board-to-Board connector with high heat resistance up to 140°C and capable of withstanding a high vibration environment. Size reduction compared to existing product was realized. FX26 can satisfy customer requirements in terms of quality and reducing costs.



【 BM46 】 Mobile Devices & Accessories Category

The BM46 Series is a Multi-RF Board-to-Board connector developed for 5G wearables, portables and mobile devices. BM46 has excellent high frequency characteristics and a compact size, and it is designed to be robustness and substantially reduces the risk of connector damage. The BM46 can contribute to miniturize devices and increased productivity.



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That's the end of the main presentation, but we have one more topic on the next page.

Our product has won a CES 2020 Innovation Awards. As you know, CES is the annual Consumer Electronics Show held in Las Vegas around early January. Recently, it is well known that the automobile-related products are boasting a strong position.

These awards are given every year, and this time we won awards in two categories: the Vehicle Intelligence & Transportation category with FX26. This is a floating board-to-board connector for internal connection in the powertrain of automobiles. We released it last year, but we believe that sales will grow in the future, especially with the spread of EVs.

Another is the multi-RF board-to-board connector for 5G smartphones called BM46, which was awarded in the Mobile Devices & Accessories category. As the number of 5G smartphones is due to increase, we believe that our early response was appreciated. We are very grateful for the recognition.

Especially, the CES award itself is rather focused on the set side, so we are very thankful that we were able to win with our components.

I will conclude my presentation. Now Fukumoto, head of the Administration Group, will continue to provide our general outlook and several topics.

Fukumoto: Good morning. This is Fukumoto from the Administration Group. We sincerely thank you for visiting us today.

From a number of perspectives, I am pleased to talk about FY2019, which has about two months left.

First is the business environment. Our three pillars are automotives, industrial machinery, and smartphones/consumer products, and we are making a variety of efforts to achieve medium term growth.

As you are aware of, the slowdown of the Chinese economy, US/China trade friction, and poor sales of automobiles have led to a rather unfavorable performance for automotive and industrial applications. For smartphones and consumer devices, we are doing relatively steady, with a variety of applications of our micro connectors, and we are in the process of moving forward.

On the other hand, although this is not just about HIROSE ELECTRIC CO., LTD., it has been a year in which we were reminded very strongly that different things happen in the environment surrounding the Company. Until the first half of the fiscal year, there was a sense that we could carry on normal operations, in order to reach our goal.

As mentioned earlier, in October, Koriyama suffered flood damage due to typhoon No. 19 / Hagibis. We incurred costs in excess of JPY1 billion in its wake. We have incorporated these costs into the third quarter's financial results and, as a result, nominal operating margin is 15%. Excluding this, the rate is 18.2%, which is still not the level of profitability we are aiming for. But we still have 18.2% worth of underlying earning power.

In fact, the damage caused in Koriyama has largely been restored, and normal operations resumed at the end of last year. But many things of this kind happened.

And, in November and December, as you are well aware, while media coverage seems to have declined recently, but there were a series of demonstrations in Hong Kong. We also have a sales company or an IPO base in Hong Kong, and demonstrations have been held near the office, causing employees to stay away from the office and work from home. We had to take various measures to address this issue.

And, in January, as you know, the new coronavirus has been spreading. We have manufacturing bases and sales offices in China and Hong Kong. As instructed by the Chinese authorities, we have extended the Chinese New Year leave and are scheduled to resume operation from February 10.

So far, the top priority has been placed on the health and safety of employees and their families. For the foreseeable future, the Japanese government has restricted visits between Japan and China, or between our overseas bases and China.

So many things happen, it no longer makes sense to say what was unexpected. It is, therefore, crucial for a company to adapt to these various changes. We will continue to enhance our risk management and responsiveness so as not to miss any big risks.

For the Koriyama plant, this kind of flood occurred 33 years ago, and the plant experienced floods. It may happen once every few years. We are considering various measures to be taken, which we would like to share with you at an opportune time.

In addition, even in Japan, there may be incidents where employees cannot come to the office for a variety of reasons. This is also true for overseas sales companies and manufacturing bases, and we are finally setting up remote work environments. We also want to be able to respond to unexpected situations.

As the third point, the engine with which Hirose grows and improves productivity remains through development and manufacturing capabilities.

We held technology exhibitions last October and November in Tokyo and Osaka. The event proved a big success with a total of 6,700 visitors. This number surpassed last time's visitor count, and I believe very passionate discussions took place between our junior engineers and our customers' engineers and members

of the purchasing department. I also feel that we have been able to have our development and technological capabilities recognized again by our customers.

About the CES Innovation Awards. Fortunately, we were able to win the award for the two connectors this time. I believe this was also the result of our technological and development capabilities and our ability to develop products in line with the needs of our customers.

I think the main focus of the awards is sets for consumers. This may be one example that our development and technological capabilities were recognized in this context.

Talking about strengthening our development and manufacturing capabilities, we have Production Techniques Department and they have recently joined the Engineering Group, which is in charge of development. Strengthen development and manufacturing, and accelerate it. We are working to do this.

This change took place just last October, and we are yet to see immediate results. But, going forward, we feel the need to further strengthen our development capabilities and manufacturing capabilities and accelerate this progress.

I forgot to mention one point. I assume many of you would like to ask about the impact of the new coronavirus on business performance. Unfortunately, our sales companies and manufacturing companies are currently closed. Our customers are also closed, and there are very few exchanges between our customers and us at this moment. Moreover, the supply chain is very complex, so it is not yet clear what kind of impact will materialize.

Therefore, we are currently in a situation where we can't comment on this. We will continue to investigate the impact. If operations start on February 10 as planned, the impact will be very small. However, if it is extended further by one or two weeks, or a month, there will be some impact.

In any event, the impact has not been included in the earnings forecast for the current fiscal year because the numbers are not clear at this point in time. I'd like to reiterate this point.

Another topic is in the area of corporate governance. We decided to establish the Nomination and Compensation Committee to enhance fairness, transparency, and objectivity in the procedure for nominating and rewarding directors and corporate auditors.

This is actually scheduled to be effective April 1. We will have four or more members of the committee, more than half of whom will be independent outside directors or independent auditors. This is an advisory body, and the advised content will be the matter of board resolution.

In any case, this Compensation Committee is going to discuss various matters regarding appointment and retirement of directors and representative directors, or preparation of successors.

Apart from that, there is the question about the proportion of external directors going forward., We are also considering the medium term capital policy we have promised since last year. The next financial results are scheduled to be announced on May 8, and the briefing to be held on May 11, so we will proceed so that it can be reported on those occasions.

Over the past few years, the Company has generated sales around JPY120 billion, or less than JPY130 billion, and margins of 18% or 17%, and we'd like to work on sales growth and profit recovery for sure.

In this context, as I've been repeating, we have to reinforce our development and manufacturing capabilities, as well as our ability to respond swiftly. We need to further strengthen risk management and responsiveness. That's also about strengthening corporate governance in a positive sense.

Having a workplace where employees are motivated and trained well is the lifeline of a company. Regarding this aspect, we will continue to make steady efforts so we will make sure to achieve stable growth and improve profitability over the medium term.

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.