

Financial Statements Summary for the Year Ended March 31, 2020 [IFRS] (Consolidated)

May 28, 2020

Company name: HIROSE ELECTRIC CO., LTD.
 URL: <https://www.hirose.com/corporate/en/>
 Stock listing: Tokyo Stock Exchange – First Section
 Code: 6806
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Scheduled date of Regular General Meeting of Shareholders: June 26, 2020
 Scheduled date of filing of Japanese annual securities report: June 26, 2020
 Scheduled date of dividend payable: June 29, 2020
 Supplemental materials: Yes
 Earnings presentation held: Yes (For institutional investors and analysts)

(Amount Unit: Yen in Millions)

(Amounts are rounded to nearest million yen)

1. Consolidated Financial Results for the Year Ended March 31, 2020

(1) Consolidated Operating Results

(Percentage represents year-on-year changes)

	Sales revenue		Operating profit		Profit before income taxes		Net income		Profit attributable to owners of the parent		Comprehensive income for the year	
		%		%		%		%		%		%
FY2019	121,765	(2.3)	20,358	(12.1)	21,205	(14.0)	15,305	(14.5)	15,305	(14.5)	10,291	(39.1)
FY2018	124,590	(0.4)	23,157	(17.5)	24,671	(11.9)	17,891	(6.4)	17,891	(6.4)	16,910	(11.1)

	Basic earnings per share	Diluted earnings per share	Profit ratio to equity attributable to owners of the parent	The ratio of profit before tax to total assets	Operating profit ratio
	Yen	Yen	%	%	%
FY2019	420.39	420.37	5.0	6.2	16.7
FY2018	489.46	489.45	5.8	7.2	18.6

(Reference) Share of profit (loss) of investments accounted for using the equity method:

Fiscal year ended March 31, 2020: —

Fiscal year ended March 31, 2019: —

(Yen in millions)

(2) Consolidated financial position

	Total assets	Total equity	Total equity attributable to owners of the parent	Ratio of total equity attributable to owners of the parent	Total equity attributable to owners of the parent per share
				%	Yen
FY2019	342,644	306,141	306,141	89.3	8,436.41
FY2018	341,435	307,330	307,330	90.0	8,428.61

(3) Consolidated Cash Flows

	Net cash provided by operating activities	Net cash used in investing activities	Net cash used in financing activities	Cash and cash equivalents at end of year
FY2019	28,584	(17,164)	(12,205)	50,561
FY2018	28,182	(31,154)	(14,298)	52,322

2. Dividends

	Annual dividend per share (Yen)					Dividends for the year (Total)	Dividend payout ratio (consolidated)	Ratio of total dividends to total equity attributable to owners of the parent (consolidated)
	1st quarter end	2nd quarter end	3rd quarter end	Fiscal year end	Total			
	Yen	Yen	Yen	Yen	Yen	Yen in millions	%	%
FY2018	—	120.00	—	120.00	240.00	8,766	49.0	2.8
FY2019	—	120.00	—	120.00	240.00	8,728	57.1	2.8
FY2020 (Forecast)	—	120.00	—	120.00	240.00		67.0	

3. Forecast of Consolidated Business Performance for the Year ending March 31, 2021 (April 1, 2020 to March 31, 2021)

(Yen in millions)

(Percentage represents year-on-year changes)

	Sales revenue		Operating profit		Profit before income taxes		Profit attributable to owners of the parent		Basic earnings per share
		%		%		%		%	Yen
2nd quarter end (cumulative total)	50,000	(17.0)	8,500	(26.3)	9,000	(25.5)	6,000	(30.0)	165.44
Fiscal year end	115,000	(5.6)	17,200	(15.5)	18,000	(15.1)	13,000	(15.1)	358.45

*Notes

(1) Changes in Significant Subsidiaries during This Period

(changes in specified subsidiaries resulting in the change in scope of consolidation) : None

(2) Changes in Accounting Policies and Changes in Accounting Estimates:

1. Changes in accounting policies required by IFRS : Yes
2. Changes in accounting policies due to other reasons : None
3. Changes in accounting estimates : None

(3) Number of Shares Issued (Ordinary Shares)

1. Number of shares issued at the end of the period (including treasury stock)

As of March 31, 2020: 38,381,820 As of March 31, 2019: 38,513,152

2. Number of treasury stock at the end of the period:

As of March 31, 2020: 2,114,675 As of March 31, 2019: 2,050,423

3. Weighted-average number of shares outstanding during the period:

Year ended March 31, 2020: 36,407,123 Year ended March 31, 2019: 36,551,523

*This consolidated report is not subject to audit by certified public accountants or audit firms.

*Explanation for appropriate use of forecast and other notes

(Cautionary statements with respect to forward-looking statements)

Forward-looking statements, such as forecast of business performance, stated in this document are based on information currently possessed by Hirose or certain assumption that Hirose has deemed as rational. We cannot make any assurances that the contents mentioned in these forward-looking statements will ever materialize. Actual financial performance could be significantly different from our expectations as a result of various factors. For the assumptions used and other notes, please refer to "1. Overview of Operating Results and Financial Condition (4) Future Outlook" on page 6.

(Method of obtaining supplementary materials on the financial results)

We are planning to hold a financial results briefing for institutional investors and analysts on Friday, May 29, 2020. The presentation materials distributed in this briefing will be published on our website soon after the briefing.

(English translation)

This is the statement translated into English from the Japanese original of "Consolidated Financial Results for the Year Ended March 31, 2020." In the event of any discrepancy between this English translation and the Japanese original, the later shall prevail.

Table of Contents of Attachment

1. Overview of Operating Results and Financial Condition	5
(1) Overview of Operating Results	5
(2) Overview of Financial Condition	6
(3) Overview of Cash Flows	6
(4) Future Outlook	6
(5) Important events related to going concern assumption	7
2. Basic Approach to the Selection of Accounting Standards.....	7
3. Consolidated Financial Statements and Primary Notes	8
(1) Consolidated Statement of Financial Position	8
(2) Consolidated Statement of Profit or Loss and Comprehensive Income	10
(3) Consolidated Statement of Changes in Equity.....	12
(4) Consolidated Statement of Cash Flows	13
(5) Notes on Consolidated Financial Statements	14
(Segment information)	14

1. Overview of Operating Results and Financial Condition

(1) Overview of Operating Results for the year ended March, 2020

In the fiscal year ended March 31, 2020, employment situation in Japan remained strong. On the other hand, exports decreased associated with slowdown of overseas economy, and consumer spending dropped affected by consumption tax increase and large typhoon, and COVID-19 has expanded after the beginning of CY2020. As a result, Japanese economy is facing difficult situation. In overseas market, both of the U.S. and Chinese economy has stagnated because of the U.S-China trade friction and the future is getting more unclear due to the impact on world economy by the spread of COVID-19.

Under this situation, Hirose group has been expanding global business mainly for smartphone market, automotive market and industrial market, and promoting reinforcement of development, sales and production system for new products with highly added value to respond advanced market needs quickly. Business for smartphone and consumer market has remained strong, but the sales of industrial has been slow down. As a result, sales revenue in the fiscal 2019 decreased by 2.3% to 121,765 million yen. Operating profit decreased by 12.1% to 20,358 million yen, income before tax decreased by 14.0% to 21,205 million yen, net income decreased by 14.5% to 15,305 million yen in fiscal 2019 as compared with fiscal 2018.

The business results by segment are as stated below.

[Multi-pin connectors]

Our flagship multi-pin connectors include a variety of connector types such as circular connectors, rectangular connectors, connectors for ribbon cables, connectors used for FPCs (flexible printed circuits boards) and nylon connectors. This kind of connectors are used widely, such as for smartphones, communication equipment, automotive electronics, measuring and control equipment, FA equipment, and medical electronics equipment, as well as other industrial equipment. We expect that demands for this connectors will grow associated with progress of advanced information and telecommunications network society, and energy saving society considering environment in the future. Segment sales for the year ended March 31, 2020 increased by 0.5% to 108,014 million yen, operating profit decreased by 11.2% to 19,406 million yen compared with the fiscal year ended March 31, 2019.

[Coaxial connectors]

Coaxial connectors are a special type of high-performance connector used primarily for microwave and other high-frequency signals. This is used mainly for microwave communications devices, satellite communications equipment, electronic measuring instruments, smartphones, switching and transmission equipment and other electronic equipment. Optical fiber connectors and coaxial switches are also included in this segment. Segment sales for the year under review decreased by 20.5% to 9,784 million yen. Operating profit decreased by 30.7% to 837 million yen.

[Other products]

This segment includes micro switches and instruments for connectors. Segment sales for the fiscal year ended March 31, 2020 decreased by 17.6% to 3,967 million yen, operating profit increased by 13.0% to 115 million yen.

(2) Overview of Financial Condition for the Year ended March 31, 2020

Total assets increased by 1,209 million yen to 342,644 million yen compared to the consolidated fiscal year ended March 31, 2019 because inventories increased and we appropriated right of use asset by adopting IFRS16 “lease.” Although trade payables decreased, total liabilities increased by 2,398 million yen to 36,503 million yen because of appropriating lease liabilities adopted by IFRS16 “lease.” Regarding net assets, retained earnings increased, but dividend of surplus and foreign currency translation adjustment decreased, and net assets decreased by 1,189 million yen to 306,141 million yen. As a result, total equity attributable to owners of the parent decreased by 0.7% to 89.3% compared to the fiscal year ended March 31, 2019.

(3) Overview of Cash Flows

Cash and cash equivalents at the fiscal year under review decreased by 1,761 million yen to 50,561 million yen compared to the fiscal year ended March 31, 2019.

a. Cash flows from operating activities

Net cash provided by operating activities for fiscal 2019 increased by 28,584 million yen. (In the fiscal 2018, it increased by 28,182 million yen.) This increase was mainly due to a rise in capital by appropriating income before tax, 21,205 million yen, and depreciation and amortization, 15,819 million yen. On the other hand, there were decrease in capital because of the payment of corporate income tax, 6,035 million yen.

b. Cash flows from investing activities

Net cash used in investing activities for fiscal 2019 decreased by 17,164 million yen. (In the fiscal 2018, it decreased by 31,154 million yen.) This is mainly due to decrease in capital by payments for purchase of tangible fixed assets, 18,689 million yen.

c. Cash flows from financing activities

Net cash used in financing activities for fiscal 2019 decreased by 12,205 million yen. (In the fiscal 2018, it decreased by 14,298 million yen.) This is because of decrease in capital by the dividend payment, 8,751 million yen, and payments for purchase of treasury stock, 2,758 million yen.

(4) Future Outlook

Regarding the outlook of the year ending March 31, 2021, it is expected that Japanese economy will be unclear because economic activities are substantially restricted by state-of-emergency declaration to prevent COVID-19.

Moreover, overseas situation will be unpredictable due to the U.S.-China economic friction, the growth of geopolitical risk, as well as the impact of COVID-19.

Under this circumstances, it is expected to have an impact to electronics industry which we belong. We predict that the production volume of automobile and smartphone will drop compared to the fiscal 2019, and are also concerned that demand for electronic components will decrease. However, at the moment, we expect that the demand will recover at some extent from the second half of the fiscal 2020. We do not include the expected damages to global economic activities, our production activities, raw material procurement and supply chain by the second wave of COVID-19.

Based on the premise mentioned above, our forecast for the consolidated financial results in the fiscal 2020 is that sales revenue: 115 billion yen (decreased by 5.6% over the fiscal 2019), operating profit: 17.2 billion yen (decreased by 15.5%), income before tax: 18 billion yen (decreased by 15.1%), profit attributable to owners of the parent company: 13 billion yen (decreased by 15.1%) as of March 31, 2020.

Assumed exchange rates for fiscal 2020 are 107 yen to the U.S. dollar, 117 yen to the Euro, and 0.088 yen to the Korean won.

(5) Basic Profit Distribution Policy and Dividends for fiscal 2019 and for fiscal 2020

Regarding profit distribution, we believe that profit distribution should be carried out by comprehensively taking business results and business environment into consideration. To realize this, we reinforce our management base, establish the route to growth and enhance our financial structure further based on basic management policy. We also keep the stable dividend to be a company which can give a sense of securities and expectations.

Based on this policy, we firmly maintain that the dividends for the fiscal 2019 comprises year-ended dividend of ¥120 per share and annual dividend of ¥240 even though our business results are tough due to the impact of COVID-19. Our dividend forecast for the year ending March 31, 2021 is expected to be an interim and annual dividend of ¥120 per share, and as a result, annual dividends will be ¥240 per share.

We are planning to prepare retained earnings for research and development investment for the future technological innovation, capital investment associated with globalization and M&A to deal with changes in business environment.

2. Basic approach to the selection of accounting standards

Since the first quarter of the fiscal year ended March 31, 2019, Hirose group has adopted the International Financial Reporting Standards (“IFRS”) to improve international comparability of financial information in capital market and to promote global management by unifying the financial standards inside our group.

3. Consolidated Financial Statements and Primary Notes

(1) Consolidated Statement of Financial Position

(Yen in millions)

	As of March 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and cash equivalents	52,322	50,561
Trade and other receivables	29,540	30,444
Inventories	13,935	14,512
Other financial assets	134,295	120,541
Other current assets	4,996	4,614
Total current assets	235,088	220,672
Non-current assets		
Tangible fixed assets	62,745	61,541
Right of use assets	—	4,478
Intangible assets	2,623	2,519
Other financial assets	38,596	50,141
Deferred tax assets	1,987	2,272
Retirement benefit assets	—	563
Other non-current assets	396	458
Total non-current assets	106,347	121,972
Total assets	341,435	342,644

(Yen in millions)

	As of March 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Trade and other payables	19,307	16,747
Lease liabilities	—	728
Other financial liabilities	17	25
Accrued tax payables	3,088	2,964
Other current liabilities	4,173	4,377
Total current liabilities	26,585	24,841
Non-current liabilities		
Lease liabilities	—	3,764
Retirement benefit liabilities	379	230
Deferred tax liabilities	5,993	6,573
Other non-current liabilities	1,148	1,095
Total non-current liabilities	7,520	11,662
Total liabilities	34,105	36,503
Equity		
Common stock	9,404	9,404
Common surplus	11,314	11,293
Retained earnings	303,349	308,343
Treasury stocks	(23,213)	(24,456)
Other components of equity	6,476	1,557
Total equity attributable to owners to the parent	307,330	306,141
Total equity	307,330	306,141
Total liabilities and equity	341,435	342,644

(2) Consolidated Statement of Profit or Loss and Comprehensive Income

(Consolidated Statement of Profit or Loss)

(Yen in millions)

	For the year ended March 31, 2019	For the year ended March 31, 2020
Sales revenue	124,590	121,765
Cost of sales	69,972	70,383
Gross profit	54,618	51,382
Selling, general and administrative expenses	30,914	30,468
Other income	496	1,305
Other expenses	1,043	1,861
Operating profit	23,157	20,358
Financial income	1,527	1,192
Financial expenses	13	345
Profit before income taxes	24,671	21,205
Corporate income tax expenses	6,780	5,900
Profit for the year	17,891	15,305
Profit attributable to:		
Owners of the parent	17,891	15,305
Earnings per share:		
Basic (yen)	489.46	420.39
Diluted (yen)	489.45	420.37

(Consolidated Statement of Comprehensive Income)

(Yen in millions)

	For the year ended March 31, 2019	For the year ended March 31, 2020
Profit for the year	17,891	15,305
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Re-measurement of defined benefit plans	(149)	(96)
Financial assets measured at fair value through other comprehensive income	(13)	1,198
Total items that will not be reclassified to profit or loss	(162)	1,102
Items that may be reclassified to profit or loss		
Exchange differences on translating foreign operations	(842)	(6,057)
Debt instruments measured at fair value through other comprehensive income	23	(59)
Total items that may be reclassified to profit or loss	(819)	(6,116)
Total other comprehensive income after tax	(981)	(5,014)
Total comprehensive income for the year	16,910	10,291
Total amount of comprehensive income attributable to:		
Owners of the parent	16,910	10,291

(3) Consolidated Statement of Changes in Equity

(Yen in millions)

	Common Stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total equity attributable to owners of the parent	Total equity
Balance as of April 1, 2018	9,404	11,674	334,505	(58,316)	7,452	304,719	304,719
Profit for the year			17,891			17,891	17,891
Other comprehensive income					(981)	(981)	(981)
Total comprehensive income for the year	—	—	17,891	—	(981)	16,910	16,910
Dividend of surplus			(12,754)			(12,754)	(12,754)
Purchase of treasury stock		(0)		(1,572)		(1,572)	(1,572)
Disposition of treasury stock		(19,644)		19,671		27	27
Cancellation of treasury stock		(17,004)		17,004		—	—
Transfer to retained earnings		36,288	(36,293)		5	—	—
Total transaction with owners	—	(360)	(49,047)	35,103	5	(14,299)	(14,299)
Balance as of March 31, 2019	9,404	11,314	303,349	(23,213)	6,476	307,330	307,330

	Common Stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total equity attributable to owners of the parent	Total equity
Balance as of April 1, 2019	9,404	11,314	303,349	(23,213)	6,476	307,330	307,330
Profit for the year			15,305			15,305	15,305
Other comprehensive income					(5,014)	(5,014)	(5,014)
Total comprehensive income for the year	—	—	15,305	—	(5,014)	10,291	10,291
Dividend of surplus			(8,751)			(8,751)	(8,751)
Purchase of treasury stock		(0)		(2,758)		(2,758)	(2,758)
Disposition of treasury stock		2		28		30	30
Cancellation of treasury stock		(1,487)		1,487		—	—
Transfer to retained earnings		1,464	(1,560)		96	—	—
Total transaction with owners	—	(21)	(10,311)	(1,244)	96	(11,479)	(11,479)
Balance as of March 31, 2020	9,404	11,293	308,343	(24,456)	1,557	306,141	306,141

(4) Consolidated Statement of Cash Flows

(Yen in millions)

	For the year ended March 31, 2019	For the year ended March 31, 2020
Cash flows from operating activities:		
Income before tax	24,671	21,205
Depreciation and amortization	13,107	15,819
Financial income	(1,527)	(1,192)
Financial expenses	13	345
(Increase) decrease in trade and other receivables	2,051	(1,535)
(Increase) decrease in inventories	(1,826)	(1,069)
Increase (decrease) in trade and other payables	(757)	(774)
Others	6	654
Subtotal	35,738	33,453
Interests received	924	833
Dividends received	298	333
Income taxes paid	(8,778)	(6,035)
Net cash provided by operating activities	28,182	28,584
Cash flows from investing activities		
(Increase) decrease in term deposit	(3,368)	2,477
Proceeds from sales and redemption of investment	17,547	13,332
Payments for purchase of investment	(24,545)	(14,056)
Payments for purchase of tangible fixed assets	(20,340)	(18,689)
Others	(448)	(228)
Net cash used in investing activities	(31,154)	(17,164)
Cash flows from financing activities		
Purchase of treasury stock	(1,572)	(2,758)
Dividends paid	(12,754)	(8,751)
Payment of lease liabilities	—	(725)
Others	28	29
Net cash used in financing activities	(14,298)	(12,205)
Effect of exchange rate changes on cash and cash equivalents	196	(976)
Increase (decrease) in cash and cash equivalents	(17,074)	(1,761)
Cash and cash equivalents at the beginning of the year	69,396	52,322
Cash and cash equivalents at the end of the year	52,322	50,561

(5) Notes on Consolidated Financial Statements

(Segment information)

1. Business segment

(1) Overview of reporting segment

In the reporting segment of Hirose group, it is possible to acquire isolated financial information among constituent unit of our group. It is also an object being examined on a regular basis to evaluate our decision of resource allocation and business results by the board of directors.

Our business is manufacturing and selling mainly connectors and other products, and we formulate a domestic and global comprehensive strategy for our products and service.

Therefore, Hirose group consists of segments by products based on the shape of connectors. Our reporting segment is “Multi-pin connectors” and “Coaxial connectors”.

“Multi-pin connectors” include circular and rectangular connectors implemented to the outside of devices. They also include connectors implemented internal of the devices, such as connectors for ribbon cables, connectors used for FPCs (flexible printed circuit boards) and nylon connectors.

“Coaxial connectors” are a special type of high-performance connectors connecting high-frequency signals such as microwave, and this segment includes optical fiber connectors.

(2) Information of reporting segment

Accounting method for reporting business segment is the same as the statement in “important accounting policy”. The revenues stated in reporting segment is the figures based on operating profit.

For the year ended March 31, 2019

(Yen in millions)

	Reporting segments			Others *1,2	Amount of consolidated financial statement
	Multi-pin connectors	Coaxial connectors	Total		
Sales revenue					
Sales revenue from external customers	107,475	12,303	119,778	4,812	124,590
Total revenue	107,475	12,303	119,778	4,812	124,590
Operating profit	21,848	1,207	23,055	102	23,157
Financial income	—	—	—	—	1,527
Financial expenses	—	—	—	—	13
Income before tax	—	—	—	—	24,671
Other items					
Depreciation and amortization	11,378	1,365	12,743	364	13,107

Notes: *1 "Others" category is not included into reporting segments. "Others" includes medical electronic devices such as interference wave EMS, micro switches and instruments for connectors.

*2 Business of medical electronic devices such as interference wave EMS included in "Others" category was transferred on January 31, 2019.

2. Geographic information

	Japan	China	Korea	Others	Total
Sales revenue	34,759	39,427	16,782	33,622	124,590
Percentage of consolidated sales revenue (%)	27.9	31.6	13.5	27.0	100.0

For the year ended March 31, 2020

(Yen in millions)

	Reporting segments			Others *	Amount of consolidated financial statement
	Multi-pin connectors	Coaxial connectors	Total		
Sales revenue					
Sales revenue from external customers	108,014	9,784	117,798	3,967	121,765
Total revenue	108,014	9,784	117,798	3,967	121,765
Operating profit	19,406	837	20,243	115	20,358
Financial income	—	—	—	—	1,192
Financial expenses	—	—	—	—	345
Income before tax	—	—	—	—	21,205
Other items					
Depreciation and amortization	13,999	1,440	15,439	380	15,819

**"Others" category is not included into reporting segment. "Others" includes micro switches and instruments for connectors.

2. Geographic information

	Japan	China	Korea	Others	Total
Sales revenue	31,689	42,335	18,385	29,356	121,765
Percentage of consolidated sales revenue (%)	26.0	34.8	15.1	24.1	100.0

(Significant subsequent events)

1. Land acquisition

KORIYAMA HIROSE ELECTRIC CO., LTD., our consolidated subsidiary, made a contract with Koriyama-shi Fukushima Prefecture, to acquire the land on April 30, 2020. The details of the land, reason for acquisition and future outlook are stated below.

- Property overview

Location : 16-1,19, 1-chome, Kamiizushima, Koriyama-Shi, Fukushima Prefecture

Area : 47,720.87 m²

Price : 735 million yen

- The reason for acquisition

Taking the production results and continuous business development of Koriyama factory into consideration, we have decided to acquire this land to “progress and expand our ability to manufacture” for mid-and-long term, and “reinforce safety and convenience” including unexpected natural disasters.

- Future outlook

The new building on the land is planning to be completed within FY2022. As soon as it's completed, our factory will be moved there. The details of the plan has not been decided at the moment.

2. Receipt of an insurance claim

Due to Typhoon Hagibis formed in October, 2019, the Abukuma River was flooded. It caused flood damages to the factory of Koriyama Hirose, our consolidated subsidiary, and part of our inventories and tangible fixed assets were damaged.

The receipt amount of the casualty insurance claim for this damages was finalized on April 20, 2020 as follows.

The Amount of the insurance claim: 1,496 million yen

This insurance claim will be factored into “other income” of FY ending March, 2021.

1,329 million yen as the costs for disposal of these damaged assets and for restoration was recorded to consolidated profit and loss statement of the current fiscal year, ended March 2020.