

Hirose Electric Business Results for FY2019

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May 29, 2020

Hirose Electric Co., Ltd.

[6806]

Cautionary Statement

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.

Business Situation of FY2019 (Apr,2019 – Mar,2020)

FY2019
(Apr - Mar)

Order **1,253.6** hundred million yen
(YoY **-2.6%**)

Sales **1,217.6** hundred million yen
(YoY **-2.3%**)

Operating profit **203.6** hundred million yen ※Profit Ratio **16.7** %
(YoY **-12.1%**)

The result was decreased sales and decreased profit because of the deterioration of economic confidence, extended sense of stagnation affected by poor sales in automobile and the impact of COVID-19.

General Industrial

Regarding the sales for General Industrial, it has been in a declining trend since the second half of the fiscal 2018, and it takes time to recover. The sales resulted -14% YoY.

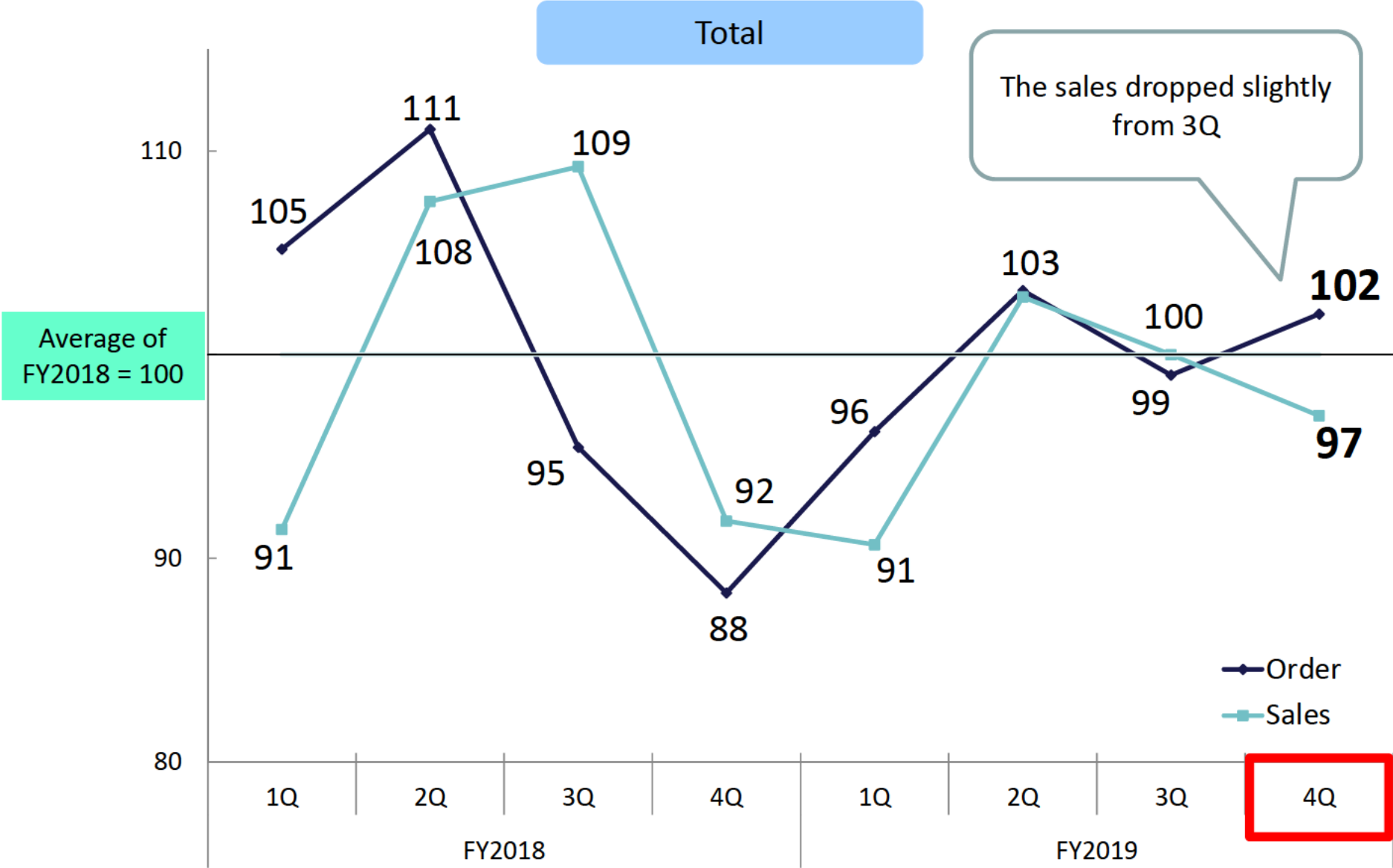
Smartphone

The sales for smartphone market has remained high level in 4Q, after 2Q and 3Q, and increased by 9% YoY.

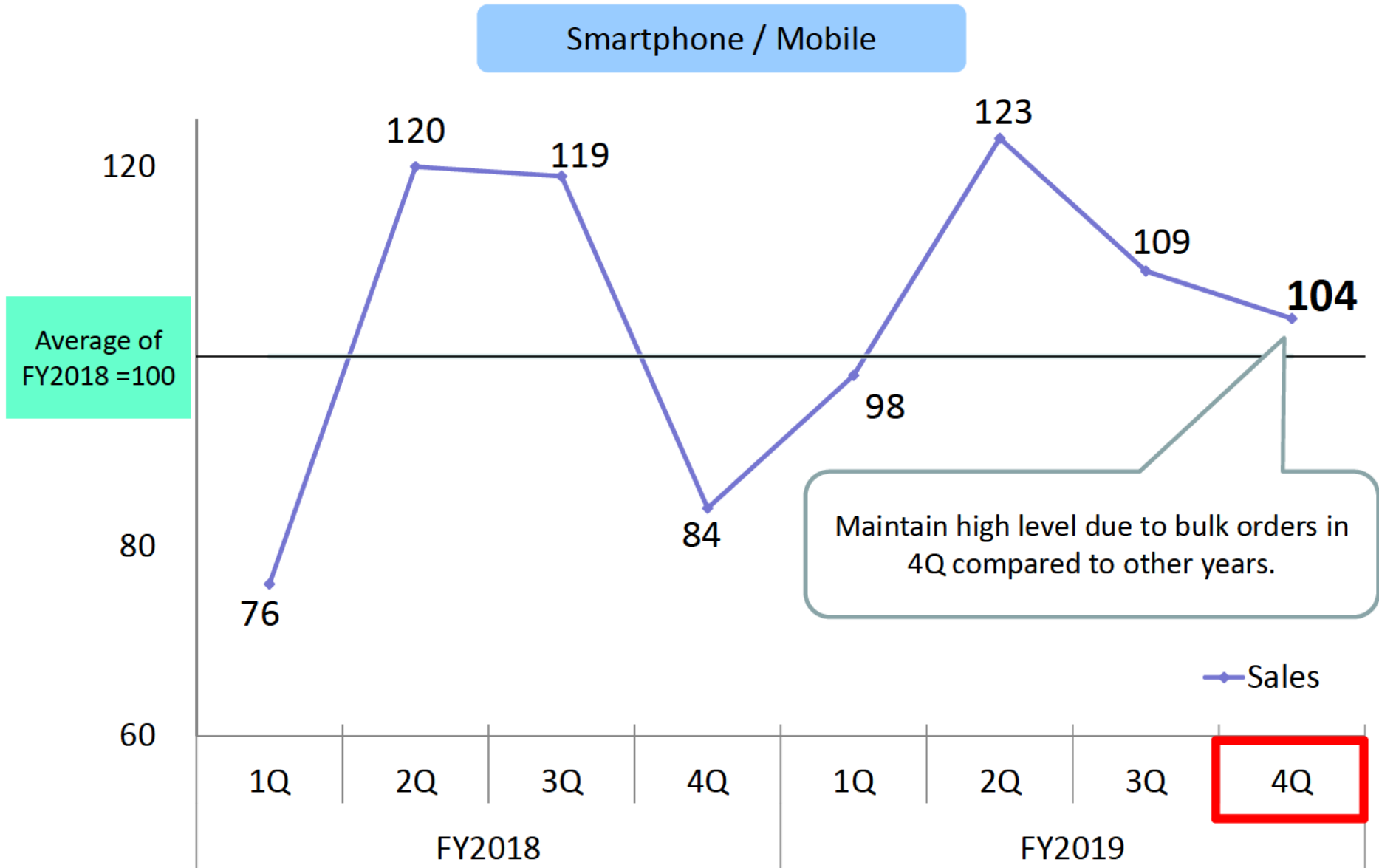
Automotive

The sales for automotive decreased by 1% YoY because sluggish sales in automobile did not recover and the sales for existing products have been decreasing.

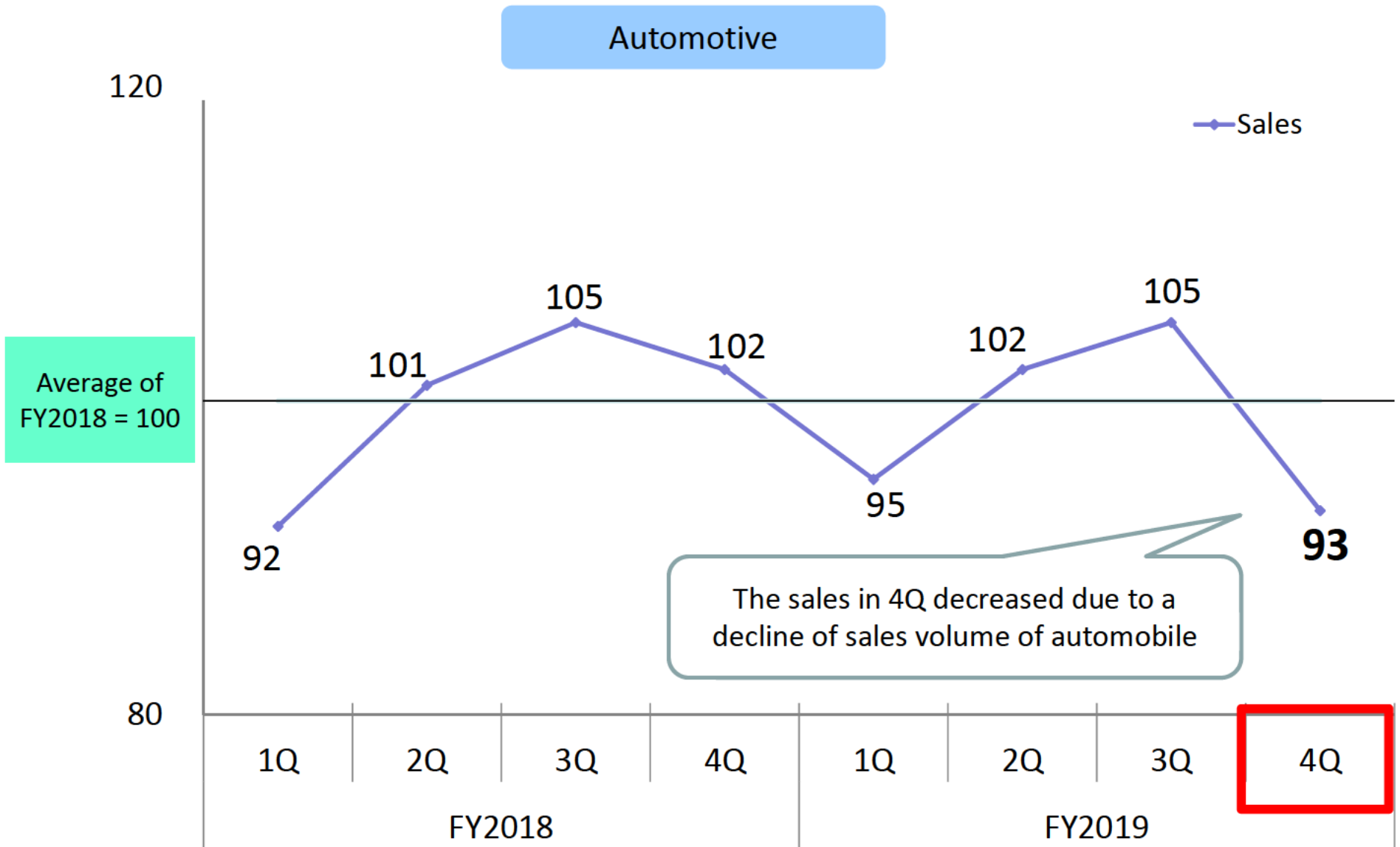
FY2018 1Q – FY2019 4Q Orders and Sales (Consolidated Basis, Index Number)



FY2018 1Q – FY2019 4Q Sales by Markets (Consolidated Basis, Index Number)

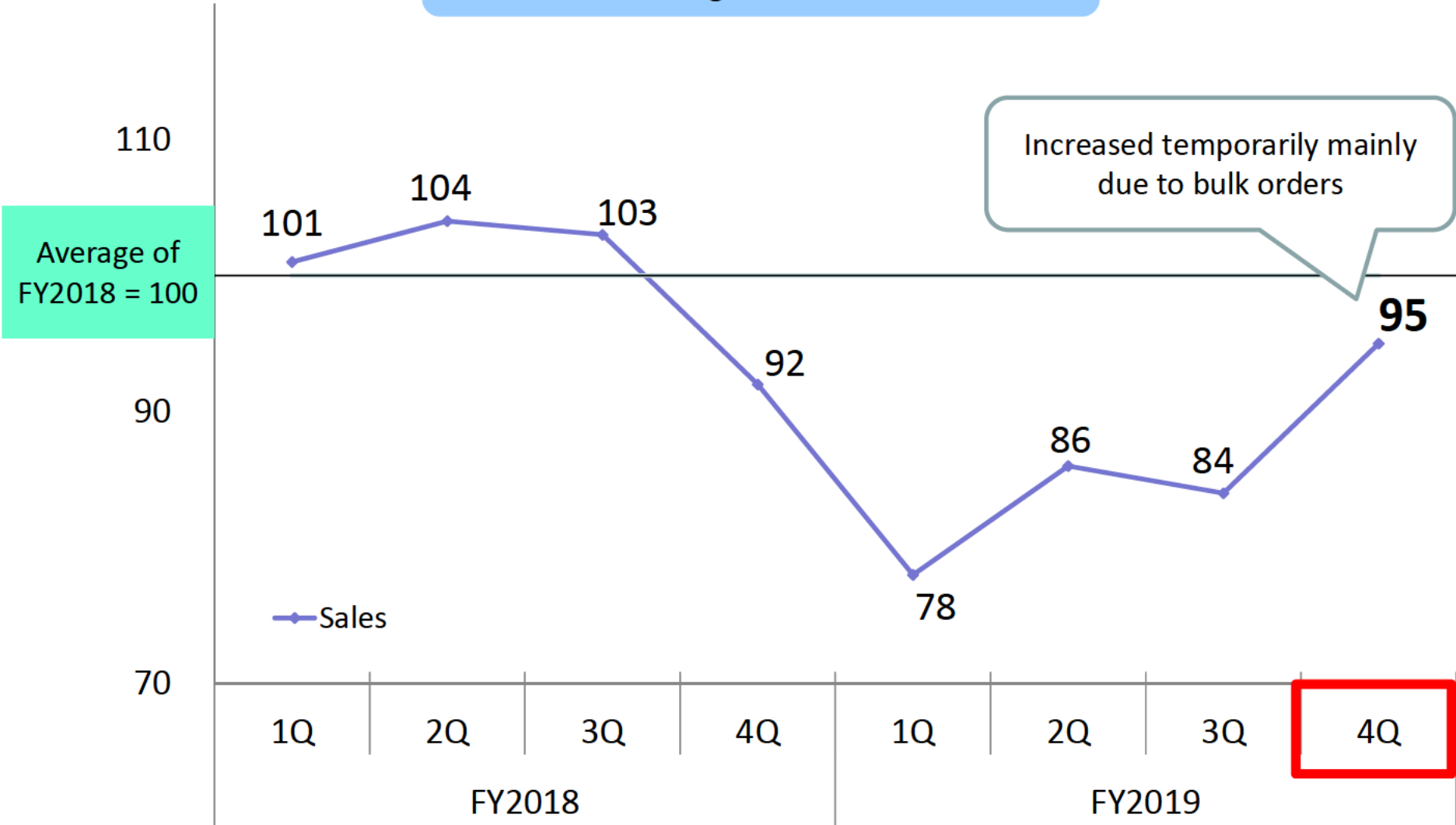


FY2018 1Q – FY2019 4Q Sales by Markets (Consolidated Basis, Index Number)



FY2018 1Q – FY2019 4Q Sales by Markets (Consolidated Basis, Index Number)

Associated Electric Equipment,
FA Controlling Device, and Others



Business Results for FY2019

(Yen in millions)

	FY2018 (FY ended Mar 31, 2019)	FY2019 Forecast (Nov 1, 2019)	FY2019 (FY ended Mar 31, 2020)	Increase / Decrease (YoY)	Increase / Decrease Ratio (YoY)
Sales	1,245.9	1,250.0	1,217.6	-28.3	-2.3%
COGS Ratio	56.2%	58.4%	57.8%	+1.6	
SGA Ratio	24.8%	24.5%	25.0%	+0.2	
Operating Profit	231.6	220.0	203.6	-28.0	-12.1%
(%)	18.6%	17.6%	16.7%	-1.9	
Earnings before income tax	246.7	230.0	212.1	-34.6	-14.0%
(%)	19.8%	18.4%	17.4%	-2.4	
Net Profit	178.9	175.0	153.1	-25.8	-14.5%
(%)	14.4%	14.0%	12.6%	-1.8	
Total Assets	3,414.3		3,426.4		
Shareholder's Equity Ratio	90.0%		89.3%		
Income Per Share	489.46 yen		420.39 yen		

Major Changes over prior same period FY2019

(Yen in millions)

■ Sales

28.3 hundred million yen **Decreased**
(1,245.9 → 1,217.6)

Non consolidated Hirose : **-27.8**

Subsidiaries : **-0.5**

■ COGS Ratio

1.6 point **Deteriorated** (56.2% → 57.8%)

Purchase Cost Ratio : 38.8 % → **39.1%**

Depreciation Ratio : 8.7% → **10.5%**

■ SGA Ratio

0.2 point **Deteriorated** (24.8% → 25.0%)

309.1 → 304.7 (4.5 hundred million yen Decreased)

■ Financial revenue / expense

6.7 hundred million yen **Deteriorated**
(+15.1 → +8.5)

Foreign Exchange Gain / Loss : **+4.0** → **-2.5**

FY2019 YoY Variation analysis

(Yen in millions)

	Sales	Operating profit	(%)	Earnings before income tax	(%)
FY2018 Actual	1,245.9	231.4	18.6%	246.5	19.8%
Exchange rate	-35.1	-14.8		-21.8	
Depreciation cost increase		-27.2		-27.2	
Labor cost increase		-2.2		-2.2	
Increase in the product	6.9	4.0		4.0	
Gain on sale of land		8.4		8.4	
Expenses for damage from flood in Koriyama plant		-13.3		-13.3	
Decrease in SGA expenses (excluding depreciation and labor cost)		8.4		8.4	
Others		8.9		9.3	
Total amount of change	-28.3	-27.8		-34.4	
FY2019 Actual	1,217.6	203.6	16.7%	212.1	17.4%

Currency Effect for FY2019

	FY2018	FY2019
Currency rate : US\$	110.91 yen	108.74 yen
Currency rate : €	128.41 yen	120.82 yen
Currency rate : 100won	9.98 yen	9.21 yen



(Yen in millions)

YoY Currency effect amount	
Sales	-35.1
Operating Profit	-14.8
Earnings before income tax	-21.8

Changes in Consolidated Balance Sheet

(Yen in millions)

	Account	Mar 31, 2019	Mar 31, 2020	Increase / Decrease	Remark
A S S E T S	Cash and Cash equivalents	523.2	505.6	-17.6	Mainly payment for dividend and corporate tax
	Trade and other receivables	295.4	304.4	9.0	Trade receivables: +11.8 Accounts receivable: -2.3, others
	Inventories	139.4	145.1	5.8	
	Other financial assets	1,728.9	1,706.8	-22.1	
	Tangible fixed assets	627.4	615.4	-12.0	
	Right-of-use asset	—	44.8	44.8	Adopted IFRS16 and appropriate lease transaction as asset
	Others	100.0	104.3	4.3	
	Total Assets	3,414.3	3,426.4	12.1	

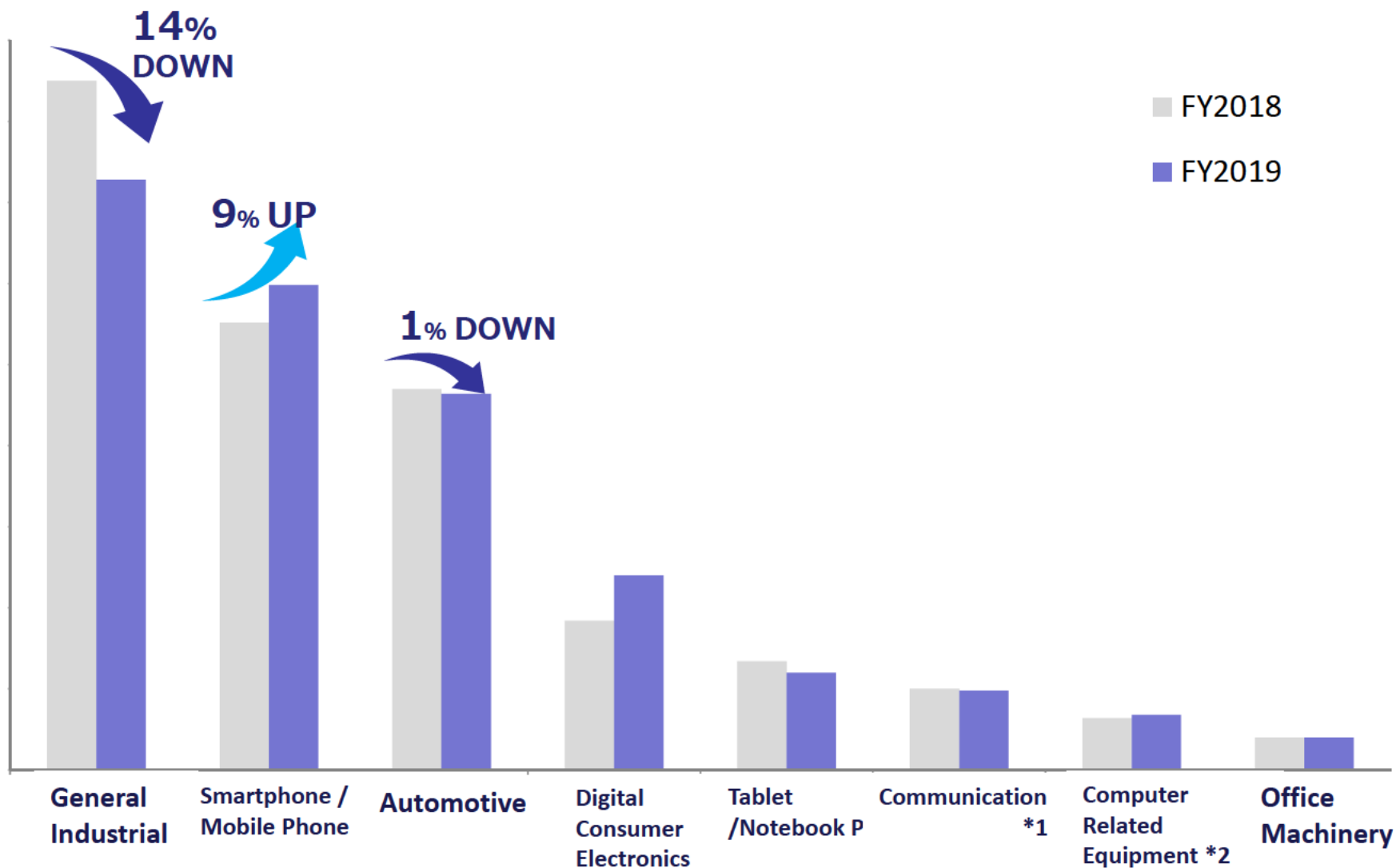
Total of cash in bank **1,727.6** **1,674.5** **-53.0**

Changes in Consolidated Balance Sheet

(Yen in millions)

	Account	Mar 31, 2019	Mar 31, 2020	Increase / Decrease	Remark
Liabilities	Payables and other debt	193.1	167.5	-25.6	Accounts payable-facilities: -16.0 Payables: -7.3
	Lease liabilities	—	44.9	44.9	Application of IFRS16
	Income Taxes Payable	30.9	29.6	-1.2	
	Others	117.1	123.0	5.9	
		341.0	365.0	24.0	
Shareholder's Equity	Capital stock and Capital surplus	207.2	207.0	-0.2	
	Retained Earnings	3,033.5	3,083.4	49.9	Net Profit: 153.1, Dividend: -87.5 Cancellation of treasury stock: -14.8
	Treasury Stocks	-232.1	-244.6	-12.4	Cancellation of treasury stock: +14.8 Purchase of treasury stock: -27.6
	Others	64.8	15.6	-49.2	
	Total	3,073.3	3,061.4	-11.9	
Total Liabilities and Shareholder's Equity		3,414.3	3,426.4	12.1	

Sales Changes by Application (round number) 【Consolidated Basis】

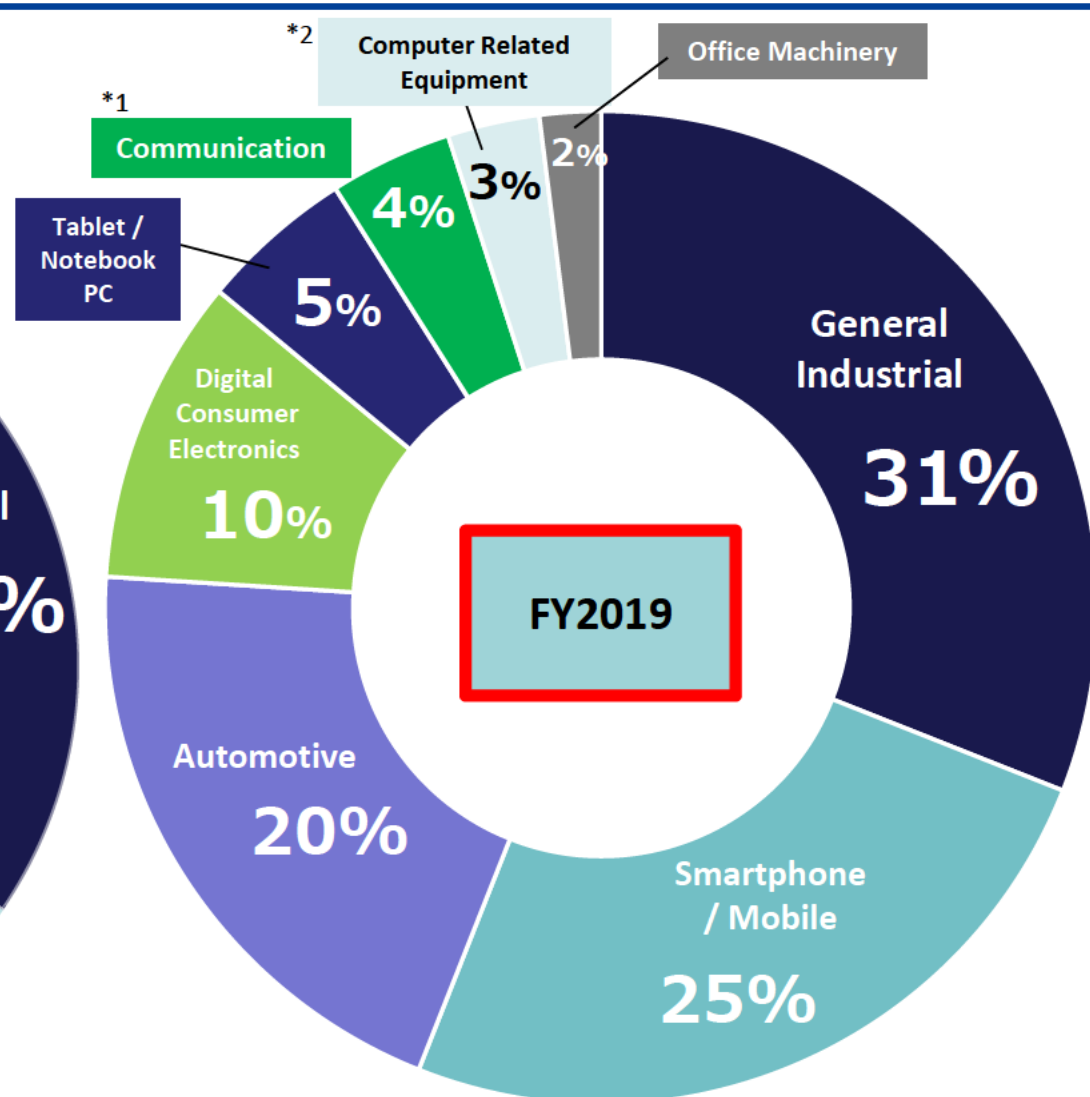
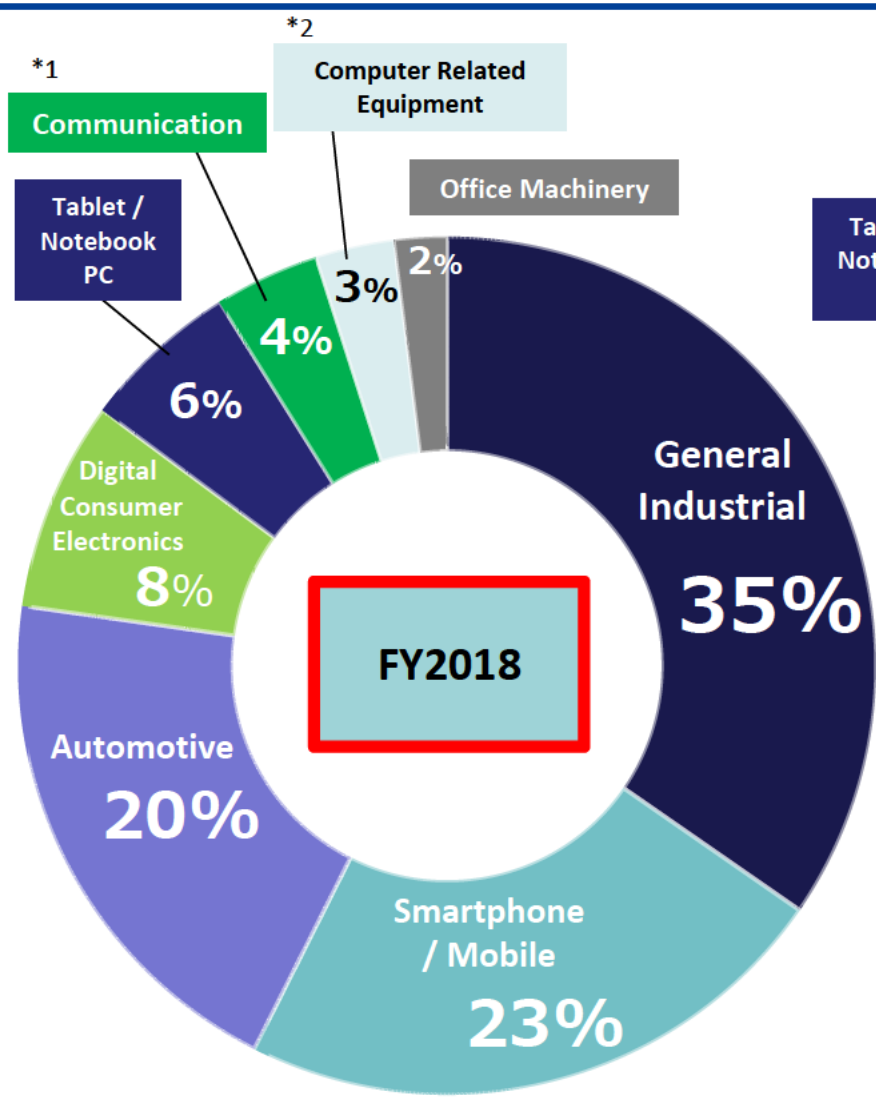


As this is in round number, please be noted that some ratio difference may occur. Thank you for your understanding.

*1 Communication - Smartphone / Mobile Phone not included

*2 Computer Related Equipment – Tablet/Notebook PC not included.

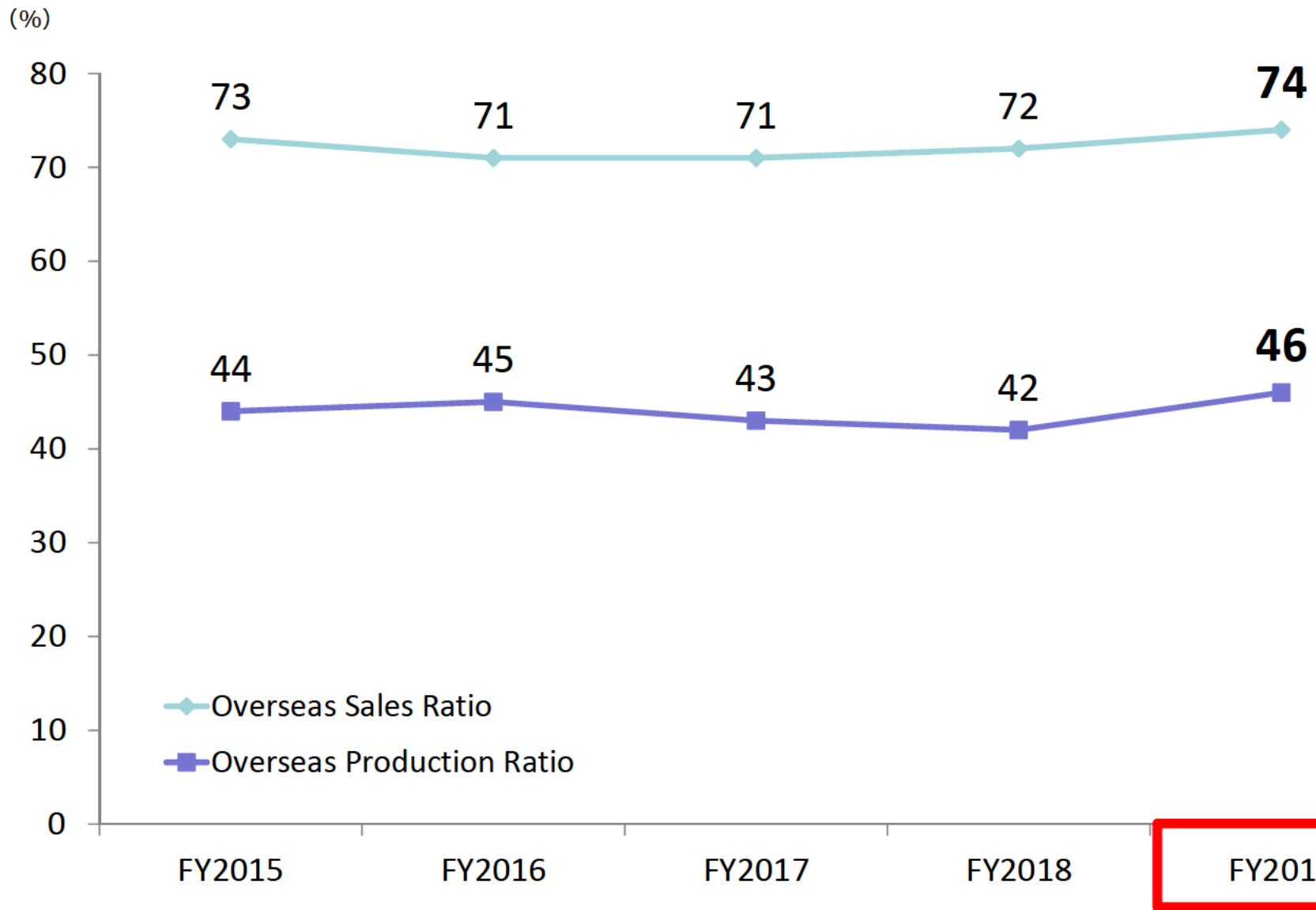
Sales by Application (round number) (Consolidated Basis)



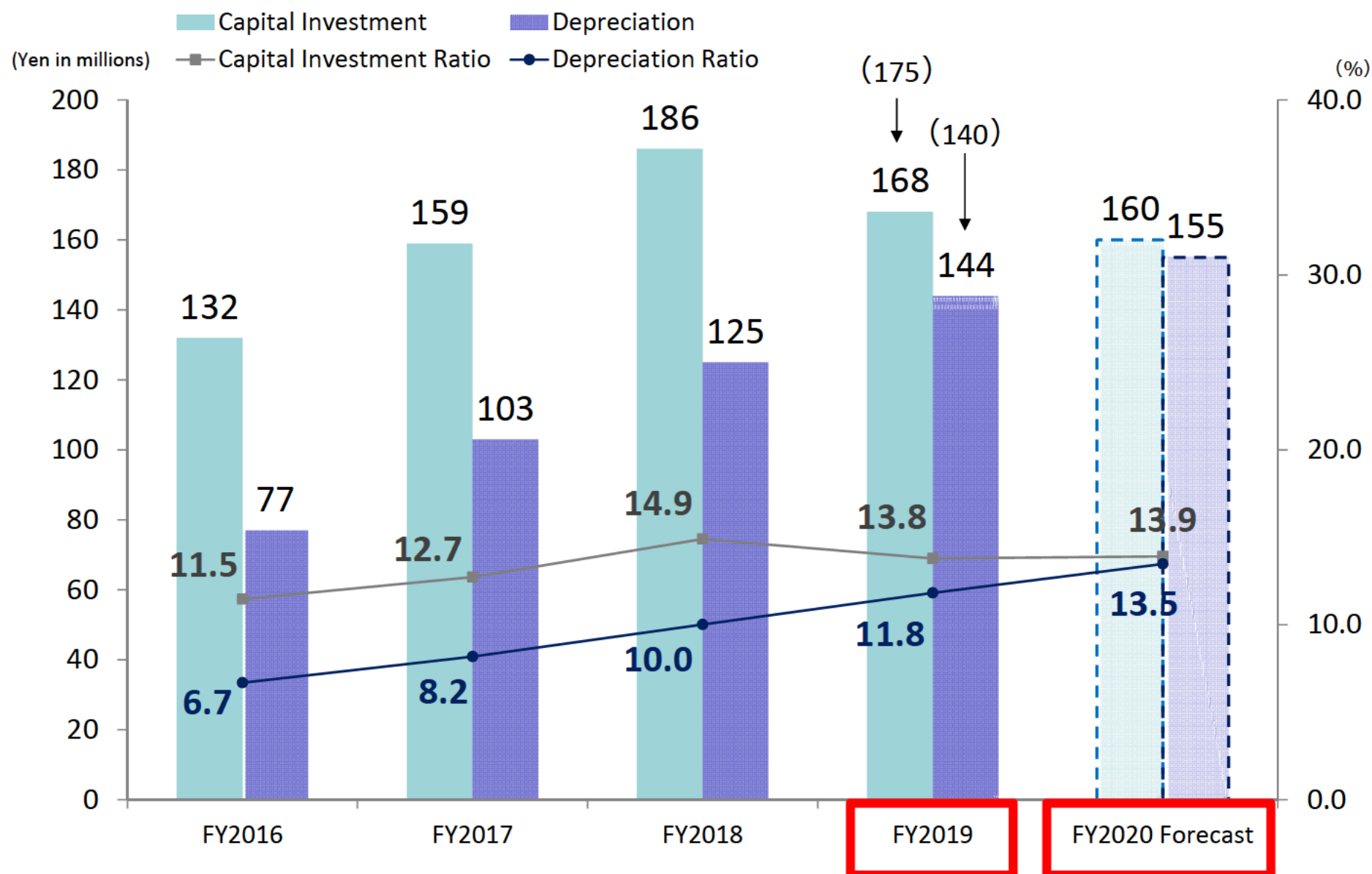
As this is in round number, please be noted that some ratio difference may occur. Thank you for your understanding.

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 *2 Computer Related Equipment – Tablet/Notebook PC not included.

Overseas Production and Sales Ratio

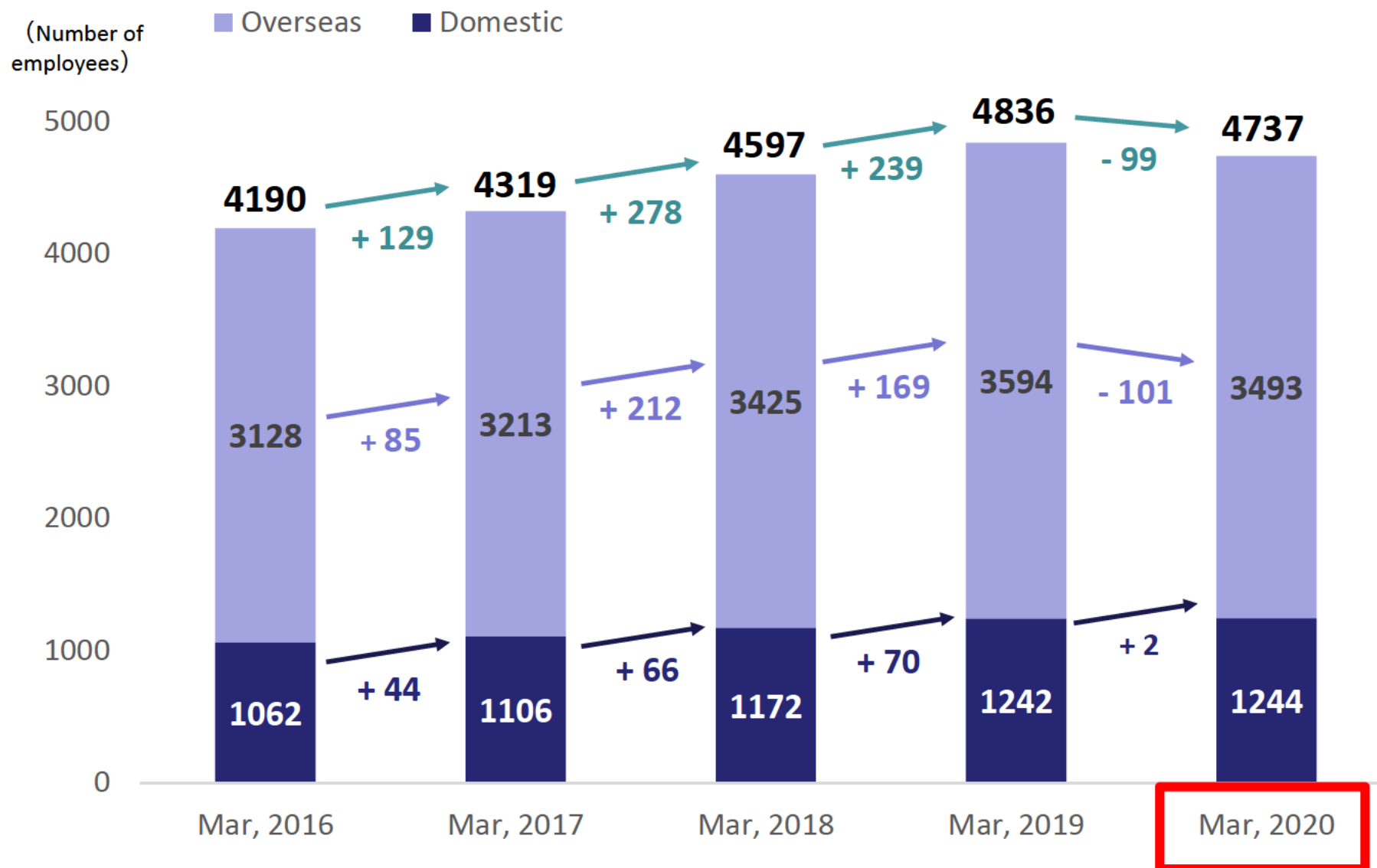


Capital Investment and Depreciation Change (Consolidated Basis)

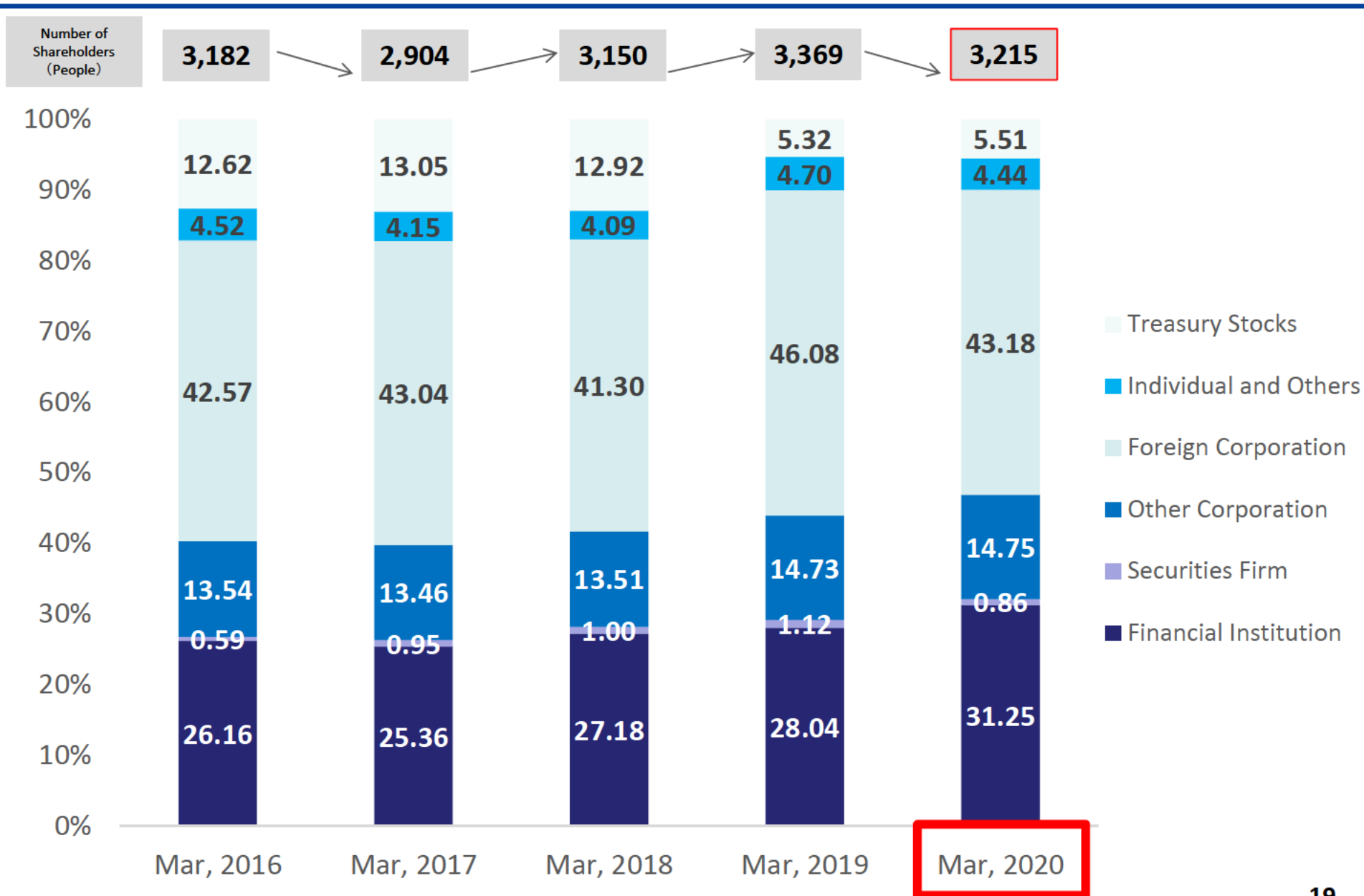


(*Excluded: Investment in land, building, software)

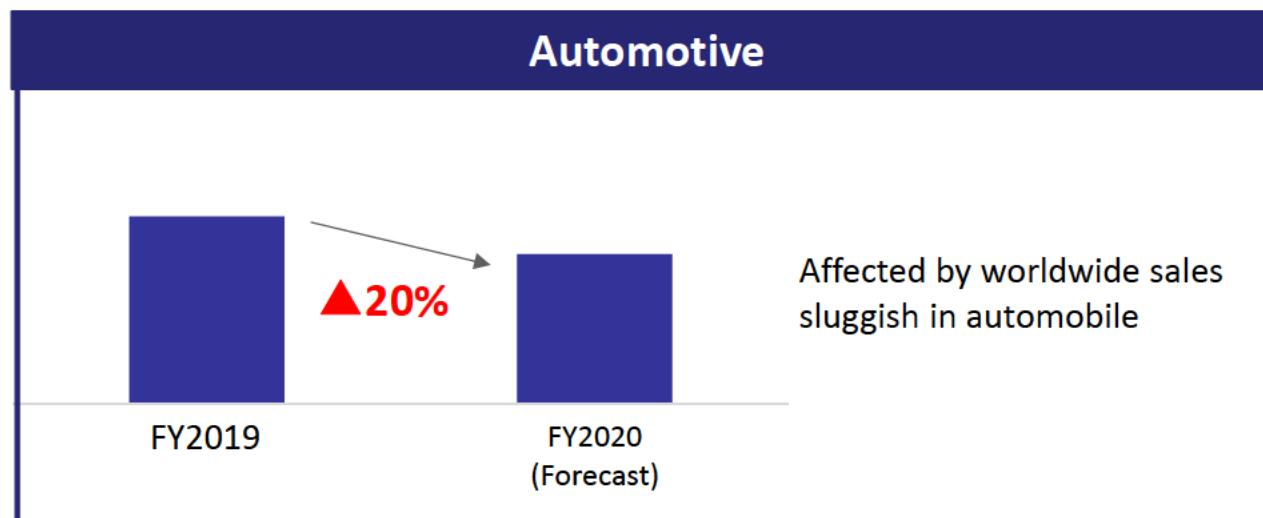
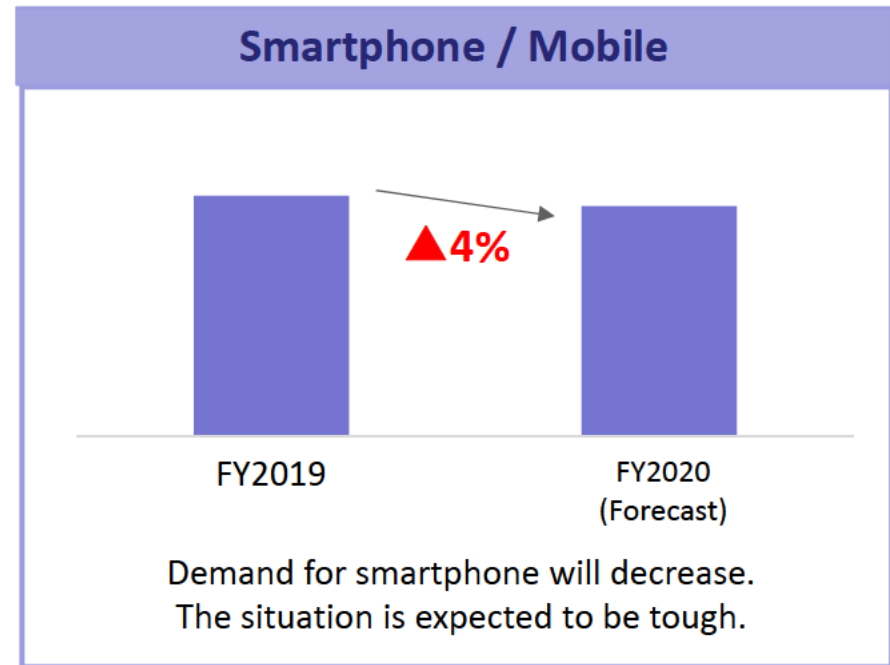
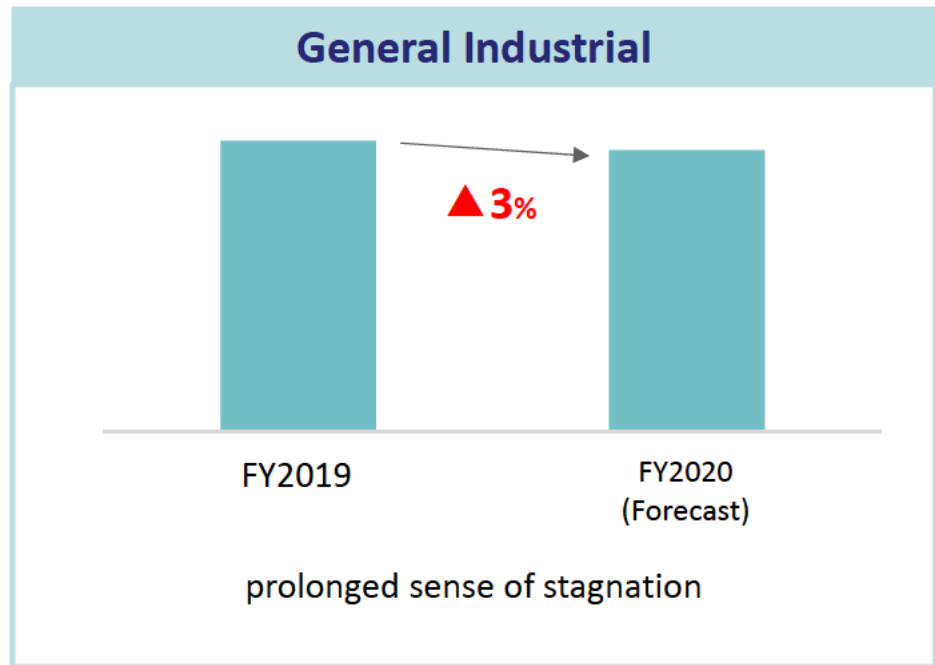
Number of Employees (Financial Report Basis)



Distribution of Shareholders



FY2020 Attitude by applications (Forecast)



Business Forecast for the Year Ending March 31, 2021 (Consolidated) 【IFRS】

(Unit: Hundred millions of yen)	FY2019 (FY ended Mar31, 2020) Actual		FY2020 (FY ending Mar31, 2021) Forecast		First Half Over the Previous Actual Amount		For the Year Over the Previous Actual Amount	
	First Half	For the Year	First Half	For the Year	%	Amount Change	%	Amount Change
Sales	602.7	1,217.6	500.0	1,150.0	-102.7	-17.0	-67.6	-5.6
COGS Ratio	57.1%	57.8%	60.0%	60.4%				
Operating Profit	115.3	203.6	85.0	172.0	-30.3	-26.3	-31.6	-15.5
(%)	19.1%	16.7%	17.0%	15.0%				
Earnings before income tax	120.9	212.1	90.0	180.0	-30.9	-25.5	-32.1	-15.1
(%)	20.1%	17.4%	18.0%	15.7%				
Net Profit	85.7	153.1	60.0	130.0	-25.7	-30.0	-23.1	-15.1
(%)	14.2%	14.4%	12.0%	11.3%				
Income Per Share	—	420.39 yen	—	358.45 yen				
Dividend Per Share	120 yen	240 yen	120 yen	240 yen				
Consolidated Dividend Payout Ratio	—	57.1%	—	67.0%				

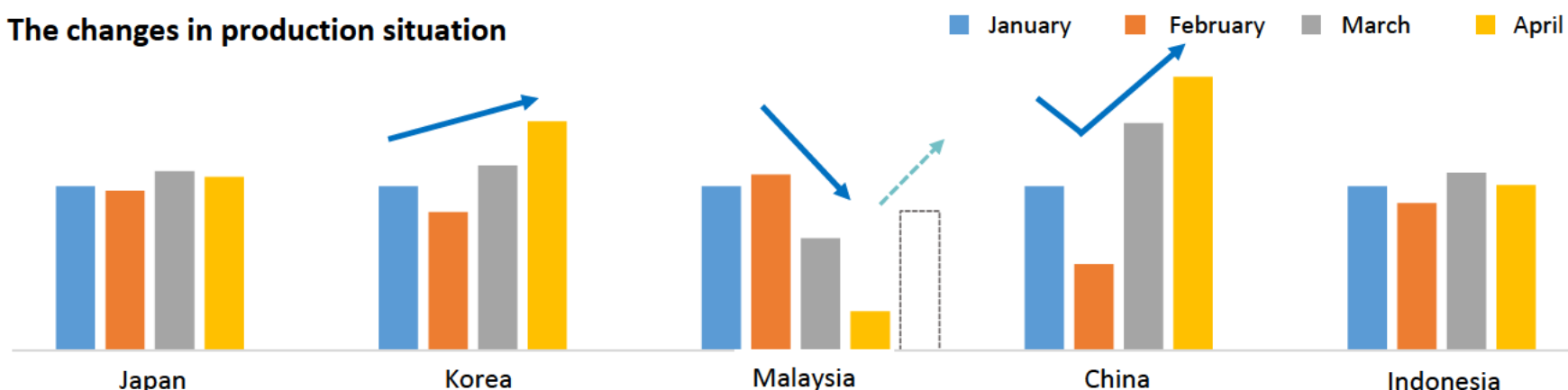
Currency Rate	FY2019 Actual	FY2020 Forecast (As of May, 2020)
1US\$	108.74 yen	107.00 yen
1€	120.82 yen	117.00 yen
100won	9.21 yen	8.80 yen

Our measures to prevent the spread of COVID-19 and production status

We are thoroughly implementing the preventive measures including temperature measurement every morning, wearing a mask, using alcohol based hand sanitizer, hand washing and gargling, and ensure that all employees have a common view as stated below.

Measures	Details, Standards
Distribute a handbook of COVID-19	Distributed a booklet which summarized specific action guidelines in the case of COVID-19 infection, and unified behavior standards and criteria for judgement of employees and their families.
Promoted working from home positively	Encouraged employees to work from home in accordance with state-of-emergency declaration.
Restrict visitors to our offices	We generally ask visitors to refrain from visiting our offices
Overseas and domestic business trip, and going out	Overseas and domestic business trip are principally prohibited. Employees can go out of the offices as needed while ensuring safety.
In-house training, internal meeting and outside workshops	Trying to reduce person-to-person contact by utilizing WEB conference systems
Preventive measures of droplet infection	Prevent drop infection by putting a simple partition

The changes in production situation



(The changes in production from February to April with the volume in January as a base point.)

Koriyama Hirose Electric acquired land

Koriyama Hirose Electric made a contract with Koriyama-Shi, Fukushima to acquire the land in “Koriyama Seibu No.1 Industrial Park” on April 30, 2020.



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.

The land is 1.7 times as large as the current factory. We will utilize the land and enhance the function as domestic factory. We also aim for stable production continuously as well as further improvement of quality.

Area: about 47,700m², details of the new building will be planned. The operation will be started within FY2022.

Changes in Personnel (On and After June 26, 2020)

Directors

President and Representative Director	Kazunori Ishii (Reappointed)
Senior Managing Director, Group President, Engineering Group and in charge of Production Group	Mitsuo Nakamura (Reappointed)
Director, Group President, Production Group	Yukio Kiriya (Reappointed)
Director, Group President, Administration Group	Hiroshi Fukumoto (Reappointed)
Director, Group President, Sales & Marketing Group and Division General Manager, International Business Division	Hiroshi Satoh (Reappointed)
Director, President, Hirose Korea Co., LTD.	Sang-Yeob LEE (Reappointed)
Outside Director	Kensuke Hotta (Reappointed)
Outside Director	Tetsuji Motonaga (Reappointed)
Outside Director	Masanori Nishimatsu (Newly Appointed)

Auditor

Full-time Corporate Auditor	Yoshikazu Chiba
Outside Corporate Auditor	Terukazu Sugishima
Outside Corporate Auditor	Kentaro Miura

*Hiroaki Okano, a former board director retired from the position on June 26, 2020.

1. The direction of mid-term business development

It is quiet difficult to predict the medium term impact on our business by COVID-19 at the moment.

(1)Employees (2)Customers (3)Partners (4)Communities (5)Shareholders

We consider every stakeholders stated above as important, utilize financial assets and cash flows from operating activities generated in the future, and conduct our business by prioritizing sustainability.

2. Announcement of medium term capital policy

We have been considering the mid-term capital policy, shareholder return policy, including share buyback at a certain scale in medium term. However, business results in FY2020 are forced to be decreased sales and decreased profit. Especially automotive business, which we have strengthened resource input aiming for growth for the past several years, is expected to be quiet severe for a while. Under this situation, we proceed with reconstruction of mid-term business plan to realize sustainable and stable growth in the future. We will announce the mid-term capital policy after having an outlook of the reconstruction.

Even though situation is tough, we firmly maintain the dividend per share ¥240 in FY2020 and shareholder return in practice.

HRS HIROSE
ELECTRIC
CO.,LTD.