



## **HIROSE ELECTRIC CO., LTD**

Financial Results Briefing for the Fiscal Year Ended March 2020

May 29, 2020

## Event Summary

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<b>[Company Name]</b>	HIROSE ELECTRIC CO., LTD.	
<b>[Event Type]</b>	Earnings Announcement	
<b>[Event Name]</b>	Financial Results Briefing for the Fiscal Year Ended March 2020	
<b>[Fiscal Period]</b>	FY2019 Annual	
<b>[Date]</b>	May 29, 2020	
<b>[Time]</b>	10:30 – 11:41 (Total: 71 minutes, Presentation: 42 minutes, Q&A: 29 minutes)	
<b>[Venue]</b>	Webcast	
<b>[Number of Speakers]</b>	3	
	Kazunori Ishii	President and Representative Director
	Hiroshi Fukumoto	Corporate Board Director, Group President, Administration Group
	Hideo Suzaki	Manager, IR Office, Administration Group

## Presentation

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**Suzaki:** It's now time. We'll begin the financial results briefing for the fiscal year ended March 31, 2020 of HIROSE ELECTRIC CO., LTD.

Today, we'll be holding the briefing in a web-conference format. Thank you for your participation. My name is Suzaki from the IR office, and I will be your moderator today.

Before we begin, I'd like to briefly explain how we'll give the presentation in the online briefing. This is the first time we are holding the meeting in this format.

Our financial results summary and notice on the retirement of treasury stock have already been submitted to the Tokyo Stock Exchange yesterday. Today's materials, and yesterday's filings, can be downloaded from the link on the bottom of the screen. Please download the materials from the link if you want them on hand.

The same materials are uploaded to the company website, so you can also view them there.

The English version of the financial results summary and today's presentation material have been uploaded on the website. Please find them on the website if necessary.

In today's agenda, President Ishii will first give his greetings. After that, I'll report the financial results, followed by topics and supplementary materials explained by Fukumoto, the Group President of the Administration Group.

We expect the explanation of financial results will last a little over 30 minutes. The remaining time will be spent on Q&A. We plan on closing the meeting at 11:30 AM. Thanks for your cooperation.

We'll be accepting your questions today in a way that differs from conventional face-to-face meetings. I'll explain how you can submit your questions.

If you have any questions, you will need to press the button for questions on the bottom of the screen, which will then take you to the page where you can type your questions.

After I'm done explaining this, you'll be able to enter your questions in the system. But we won't be able to answer the questions until finishing the presentation. If you have questions prepared, or if you have doubts or questions during the presentation, you can enter your questions in the system during the presentation.

Note that we might bundle together similar questions when answering your questions.

Let's begin. First, President Ishii will give his greetings.

**Ishii:** Good morning. This is Ishii of HIROSE ELECTRIC CO., LTD.

We are doing business under unprecedented and tumultuous conditions due to COVID-19. We thank you for your continued support of HIROSE ELECTRIC CO., LTD.

To begin with, I'd like to give an update on our operations.

Except for the manufacturing sites, we've shifted mainly to remote work since around March in overall global operations. The situation is starting to improve. We will gradually be restoring operations to normal starting next week in June.

Our experience of working remotely has suggested that this would be good timing to start to think about what should be the new normal while weighing both the positives and negatives.

We were fortunate enough that our operations have not seen significant disruptions, even amidst the daily and varied changes in the external environment. At the same time, I believe HIROSE ELECTRIC CO., LTD. is a company capable of turning challenges into opportunities. As I have explained to all of you in many places, when there are changes, there will always be more connection and new opportunities. We'll strive to capture those opportunities to bolster our efforts in transforming into an even stronger company.

As for today's earnings report, as you all know, our future outlook is still subject to significant uncertainties. I'm sure there are parts where you feel the information is insufficient, but I ask you to check the information and give us guidance.

This concludes my greetings and report.



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

<b>FY2019</b> <b>(Apr - Mar)</b>	Order <b>1,253.6</b> hundred million yen (YoY <b>-2.6%</b> ) Sales <b>1,217.6</b> hundred million yen (YoY <b>-2.3%</b> ) Operating profit <b>203.6</b> hundred million yen ※Profit Ratio <b>16.7 %</b> (YoY <b>-12.1%</b> )
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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.

3

**Suzaki:** I will now report the financial results in accordance with the presentation material.

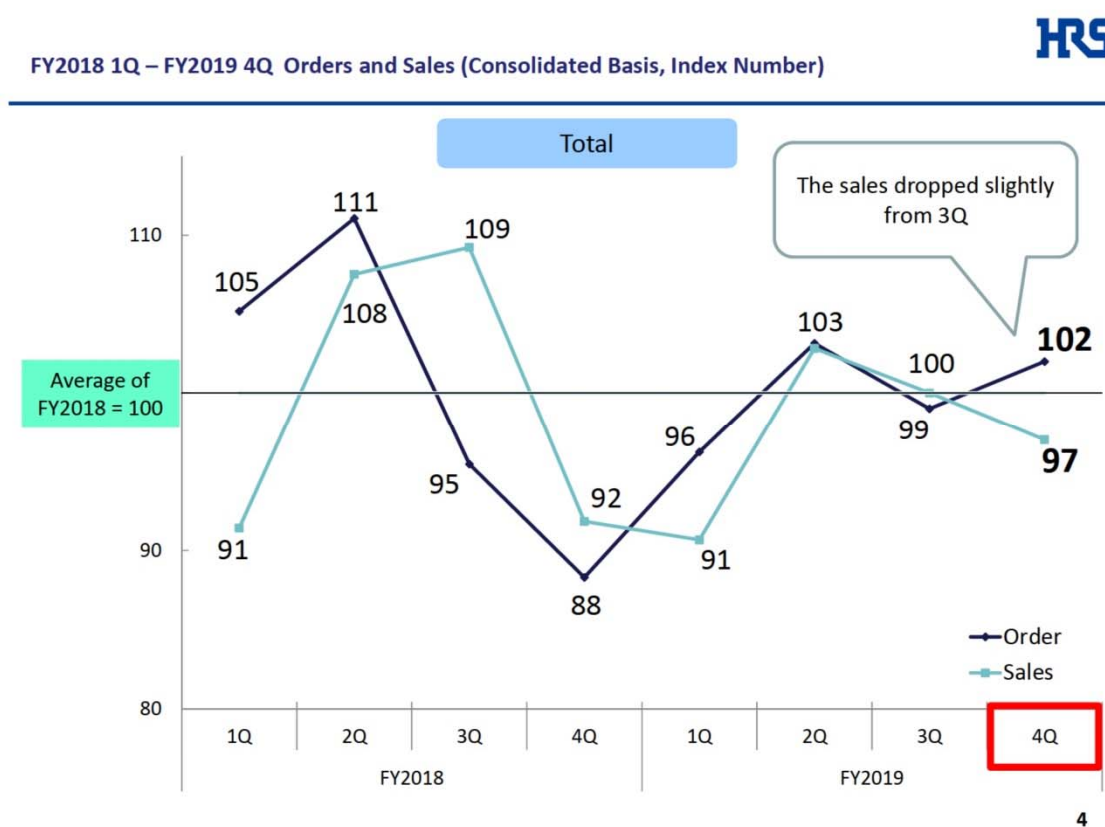
See page three for the FY2019 business summary. Orders came to JPY125.36 billion, down 2.6% YoY, and sales were JPY121.76 billion, down 2.3% YoY. Operating profit amounted to JPY20.36 billion, down 12.1% YoY, with a profit margin of 16.7%.

Compared to the revised guidance issued in November along with second-quarter results, we came in a little more than JPY3.0 billion short of the JPY125.0 billion target. We also underperformed our operating profit target of JPY22.0 billion. I will explain the factors causing these shortfalls later.

COVID-19 also had an impact on sales, with a slight decrease in sales going into the end of the fiscal year.

Overall, the deterioration in the business environment, combined with sluggish auto sales, resulted in an ongoing sense of stagnation. In addition, there was an impact from COVID-19 at the end of the fiscal year, leading to a decline in both sales and profits.

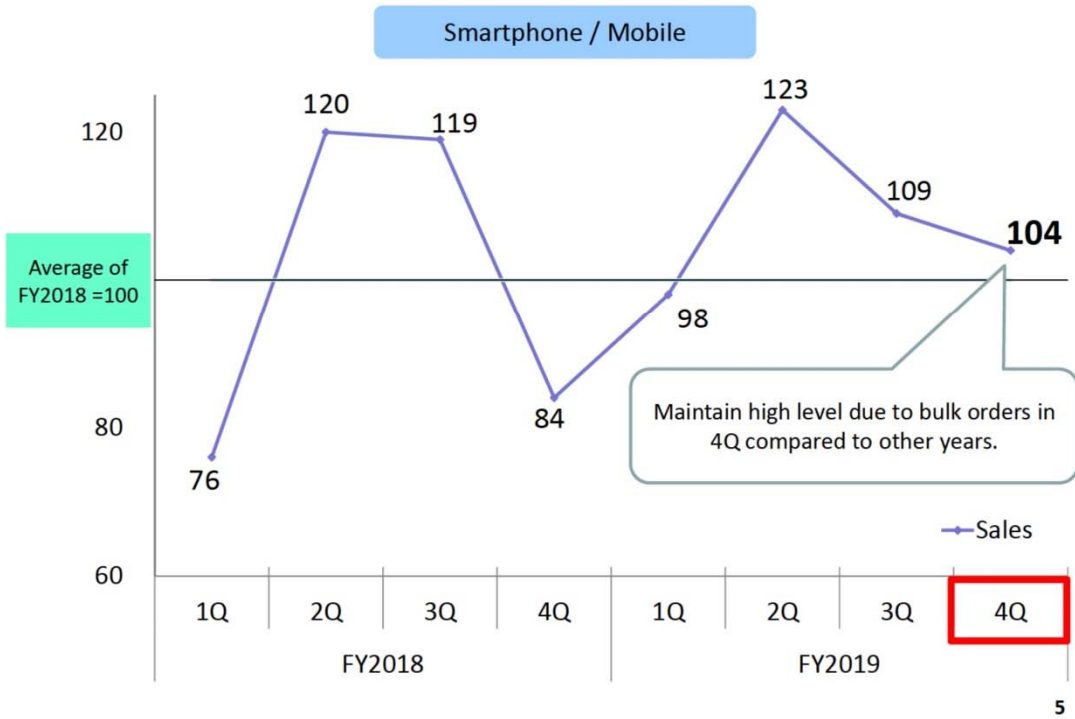
By application, for General Industrial, the downtrend is taking some time to improve, with sales down 14% YoY. For Smartphone, we maintained a steady level in 4Q as in 3Q, resulting in sales growth of 9% YoY. For Automotive, we continued to see a decline in existing products, and as a result, sales fell 1% YoY. I'll talk a little more about the underlying factors later.



Next, see page four for line graphs showing the quarterly results.

First, with regards to the overall results, sales declined slightly in 3Q and 4Q. Orders increased modestly in 4Q compared to 3Q, but this owed in part to bulk orders.

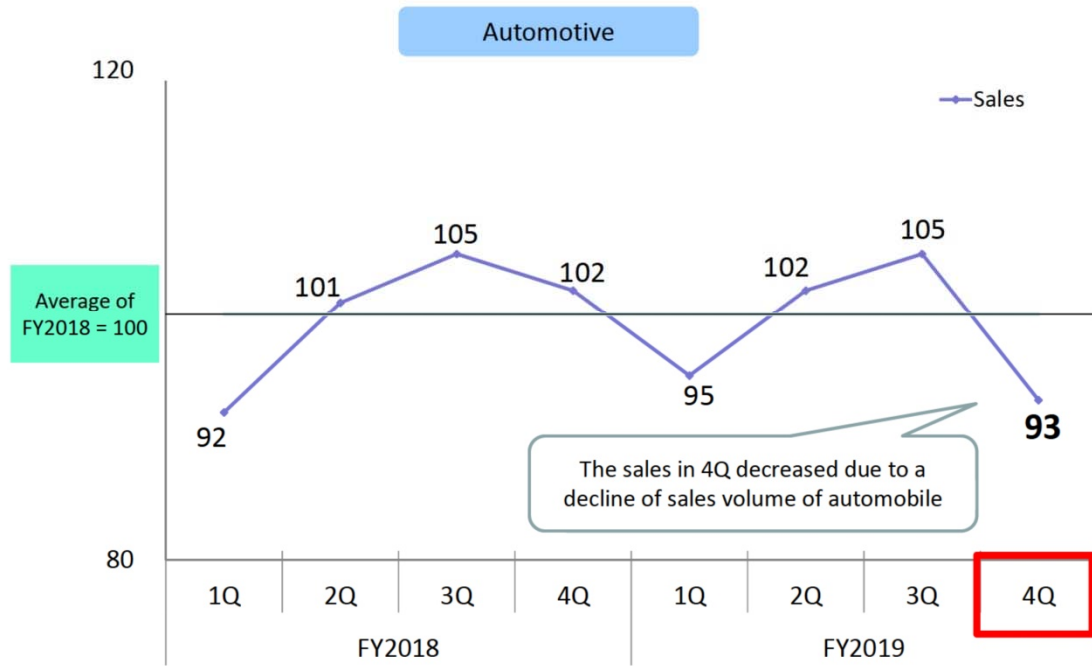
FY2018 1Q – FY2019 4Q Sales by Markets (Consolidated Basis, Index Number)



Next, see page five for a graph that shows the trends for Smartphone.

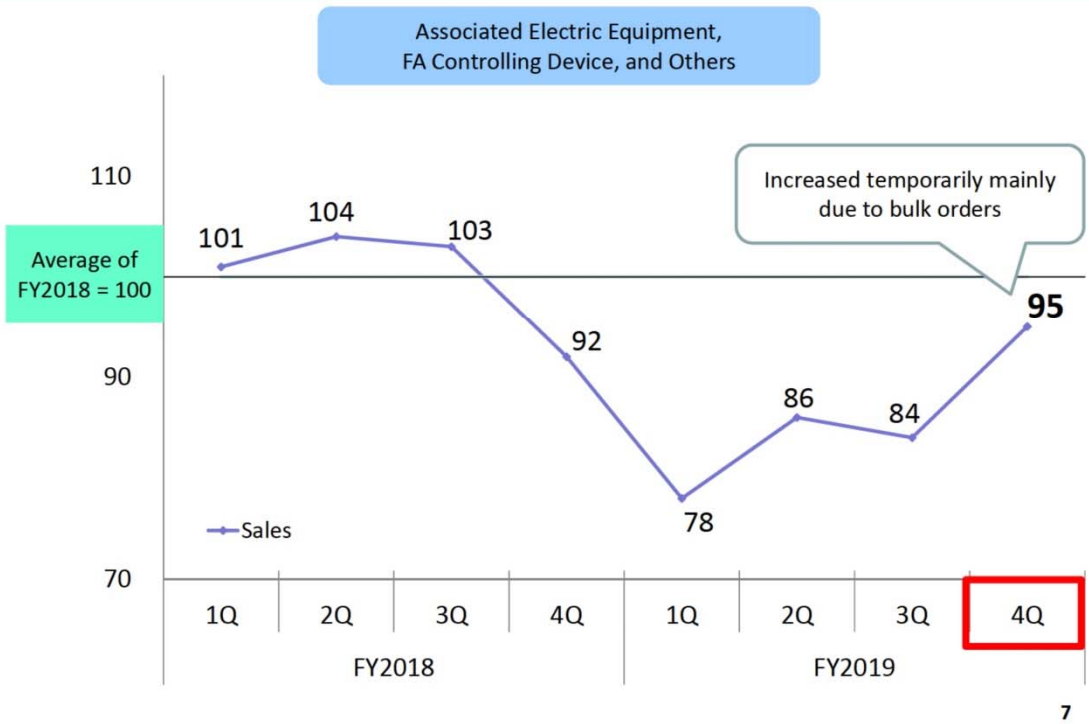
Sales saw a boost from seasonality, along with increased bulk orders in 4Q than usual. As a result, sales remained at an elevated level.

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



Next, see page six. For Automotive, sales dropped in 4Q, mainly due to a decline in auto sales volume.

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



Next, see page seven. For General Industrial, although the index in 4Q rose from 3Q, as we mentioned earlier in the overall results, this owed to a temporary increase driven by bulk orders.



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

8

Based on the above, we provide a summary of the overall results on page eight.

In FY2019, sales were JPY121.76 billion, down 2.3% YoY, or JPY2.83 billion. Operating profit was JPY20.36 billion, down 12.1% YoY, or JPY2.80 billion, with a profit margin of 16.7%.

Earnings before income tax came to JPY21.21 billion, and net profit to JPY15.31 billion. Total assets, as we will explain later in the section for the balance sheet, stood at JPY342.64 billion with a shareholders' equity ratio of 89.3%. Earnings per share were JPY420.39.

## 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**

9

The key factors behind the changes are described on page nine.

While sales declined by JPY2.83 billion, this breaks down as a decrease of JPY2.78 billion at non-consolidated HIROSE ELECTRIC CO., LTD., and a decrease of JPY0.05 billion at subsidiaries. At subsidiaries, sales were positive in Korea, but negative for selling companies, with both factors offsetting each other to come out roughly flat.

COGS ratio deteriorated 1.6 percentage points to 57.8%, mainly attributable to a deterioration of the depreciation ratio by 1.8 percentage points to 10.5% from 8.7%. This is also the result of having reinforced investments over the past few years.

SG&A ratio also worsened by 0.2 percentage points, but the total amount declined by JPY0.45 billion to JPY30.47 billion.

Financial revenue declined by JPY0.67 billion, chiefly due to foreign exchange losses. Foreign exchange boosted revenue by JPY0.40 billion in FY2018 but reduced revenue by JPY0.25 billion in FY2019, the difference of which yielded a loss of JPY0.65 billion.

FY2019 YoY Variation analysis



(Yen in millions)

	Sales	Operating profit	(%)	Earnings before income tax	(%)
<b>FY2018 Actual</b>	<b>1,245.9</b>	<b>231.4</b>	<b>18.6%</b>	<b>246.5</b>	<b>19.8%</b>
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	
<b>FY2019 Actual</b>	<b>1,217.6</b>	<b>203.6</b>	<b>16.7%</b>	<b>212.1</b>	<b>17.4%</b>

10

Next, see page 10 for the variation analysis.

We will explain the impact of exchange rates on the next page, so I will skip that part, and start from the line below. Depreciation cost rose by JPY2.72 billion. As I will explain later, we adopted the IFRS 16 Lease standards starting from FY2019, resulting in an increase in lease assets that were depreciated in accounting terms. This came to around JPY0.7 billion, so the figure here appears slightly larger than our impression.

Labor cost increased by JPY0.22 billion. As we already explained in the first quarter, gain on sale of land pushed up profit by JPY0.84 billion. We recorded JPY1.33 billion over the full year in expenses to respond to the water damages at Koriyama Plant.

Elsewhere, the decrease in SG&A expenses lifted profit by JPY0.84 billion.

	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	<b>-35.1</b>
Operating Profit	<b>-14.8</b>
Earnings before income tax	<b>-21.8</b>

Next, on page 11, we show the impact of foreign exchange. In FY2019, the exchange rate was JPY108.74 to the US dollar, JPY120.82 to the euro, and JPY0.0921 to the Korean won, all of which show a stronger yen.

The impact of the yen's appreciation is described below, with negative impacts of JPY3.51 billion on sales, JPY1.48 billion on operating profit, and JPY2.18 billion on earnings before income tax.

## Changes in Consolidated Balance Sheet

(Yen in millions)

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

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

12

Next, on page 12, we show the assets side of the balance sheet.

Cash decreased mainly for payment of dividends and corporate tax. Inventories increased by JPY0.58 billion. Although we didn't include a breakdown by company, the non-consolidated inventory decreased. Meanwhile, due to the impact of COVID-19, there was a temporary buildup of inventories in China and Korea. As such, the total inventories rose by JPY0.58 billion, but these inventories will subsequently be worked down.

Also, as mentioned earlier, we adopted a new lease accounting method, under which we newly recorded right-of-use assets amounting to JPY4.48 billion.

## Changes in Consolidated Balance Sheet

(Yen in millions)

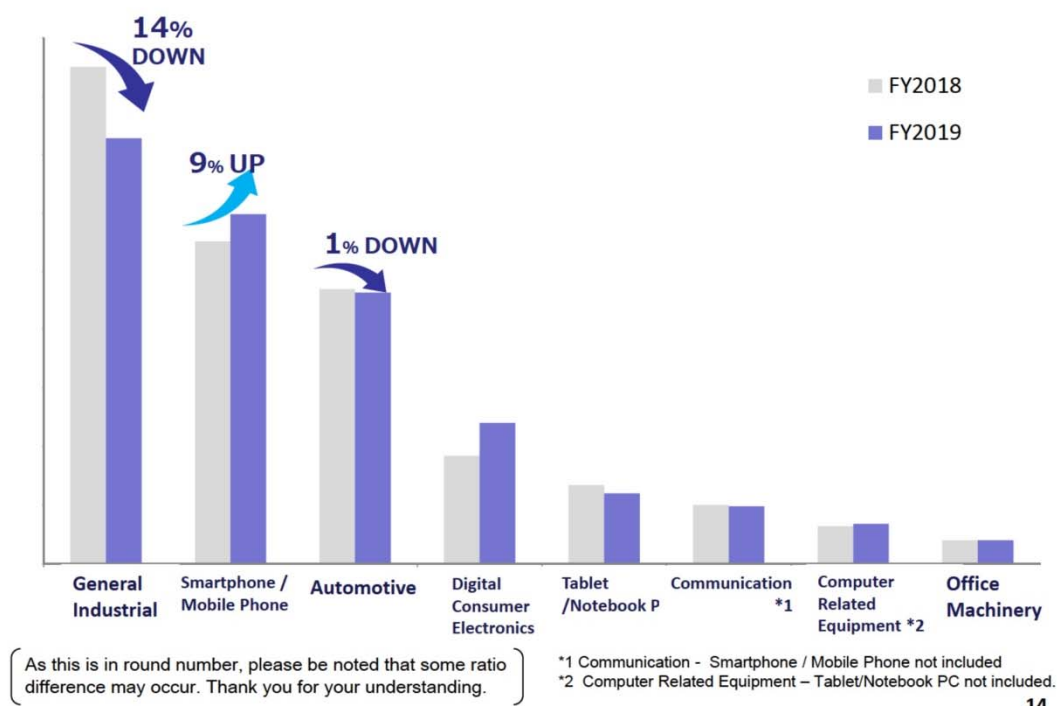
	Account	Mar 31, 2019	Mar 31, 2020	Increase / Decrease	Remark
<b>Liabilities</b>	Payables and other debt	193.1	167.5	-25.6	Accounts payable-facilities: -16.0 Payables: -7.3
	Lease liabilities	—	44.9	44.9	Application of IFRS16
	Income Taxes Payable	30.9	29.6	-1.2	
	Others	117.1	123.0	5.9	
		<b>341.0</b>	<b>365.0</b>	<b>24.0</b>	
<b>Shareholder's Equity</b>	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	
	<b>Total</b>	<b>3,073.3</b>	<b>3,061.4</b>	<b>-11.9</b>	
<b>Total Liabilities and Shareholder's Equity</b>		<b>3,414.3</b>	<b>3,426.4</b>	<b>12.1</b>	

13

Next, see page 13 for liabilities and shareholders' equity.

Liabilities declined from a year earlier on lower payables and other debt at the fiscal year-end, partly due to the slow movement of operations caused by COVID-19. As for shareholders' equity, treasury stock was impacted by the purchase of treasury stock in December 2019, amounting to slightly less than 200,000 shares.

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



Next, see page 14. I will report on sales trends by application.

As stated earlier, sales for General Industrial were down 14% for full-year FY2019. When we issued guidance along with second-quarter results, we said we expect sales to fall 12%, meaning the final result came in below guidance.

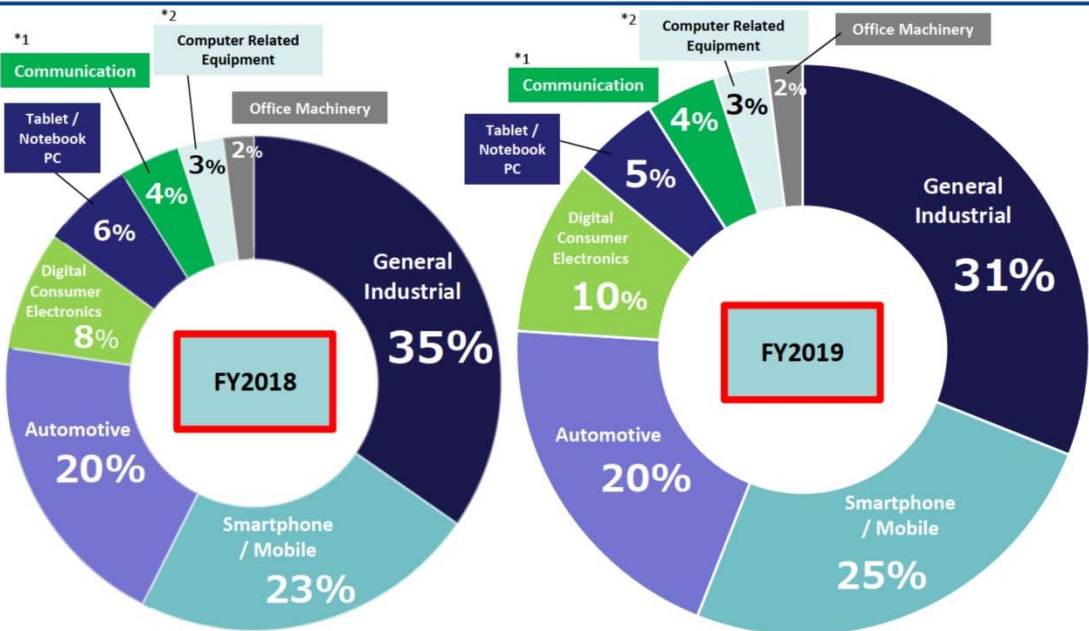
For Smartphone, sales were up 9% for the full year. We forecast an increase of 7%, so the final result was slightly better than guidance.

For Automotive, sales were down 1% for the full year. We projected an increase of 10%, showing that automotive sales were impacted heavily.

For Digital Consumer Electronics, we did not include the percentage here, but sales rose by roughly 30% on strong wearable device-related demand throughout the year.



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.

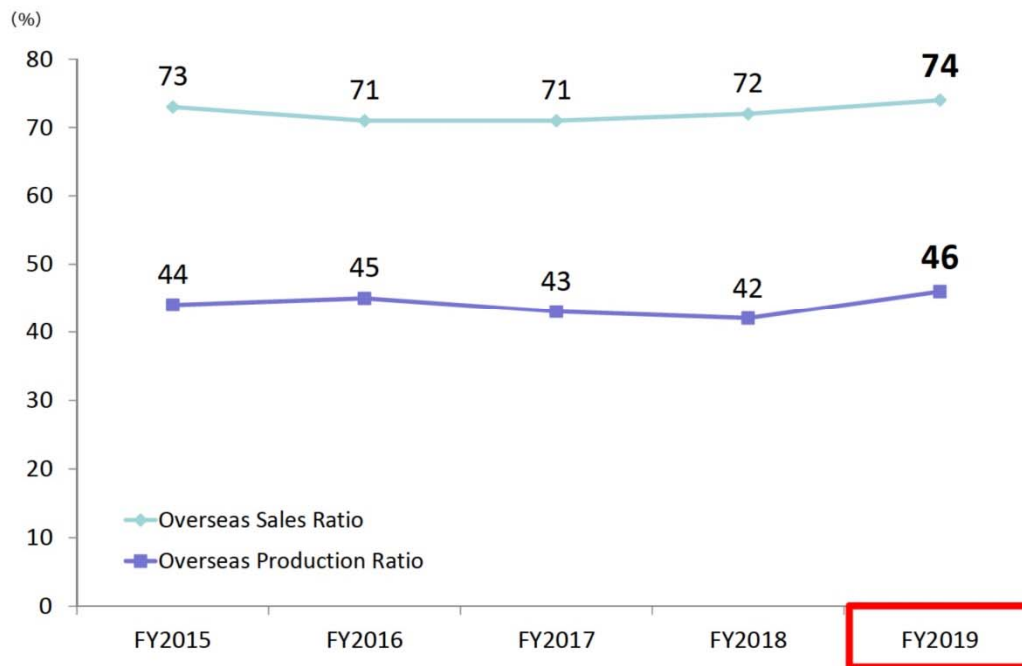
\*1 Communication - Smartphone / Mobile Phone not included  
 \*2 Computer Related Equipment - Tablet/Notebook PC not included.

Next, we show the sales weighting by application on page 15. Three applications saw a meaningful change from FY2018.

For General Industrial, the sales weighting went down to 31% from 35% in FY2018. For Smartphone, the sales weighting went up, by two percentage points, to 25% from 23%. For Automotive, the sales weighting remained unchanged. For Digital Consumer Electronics, the sales weighting went up, by two percentage points, to 10% in FY2019 from 8% in FY2018.



### Overseas Production and Sales Ratio

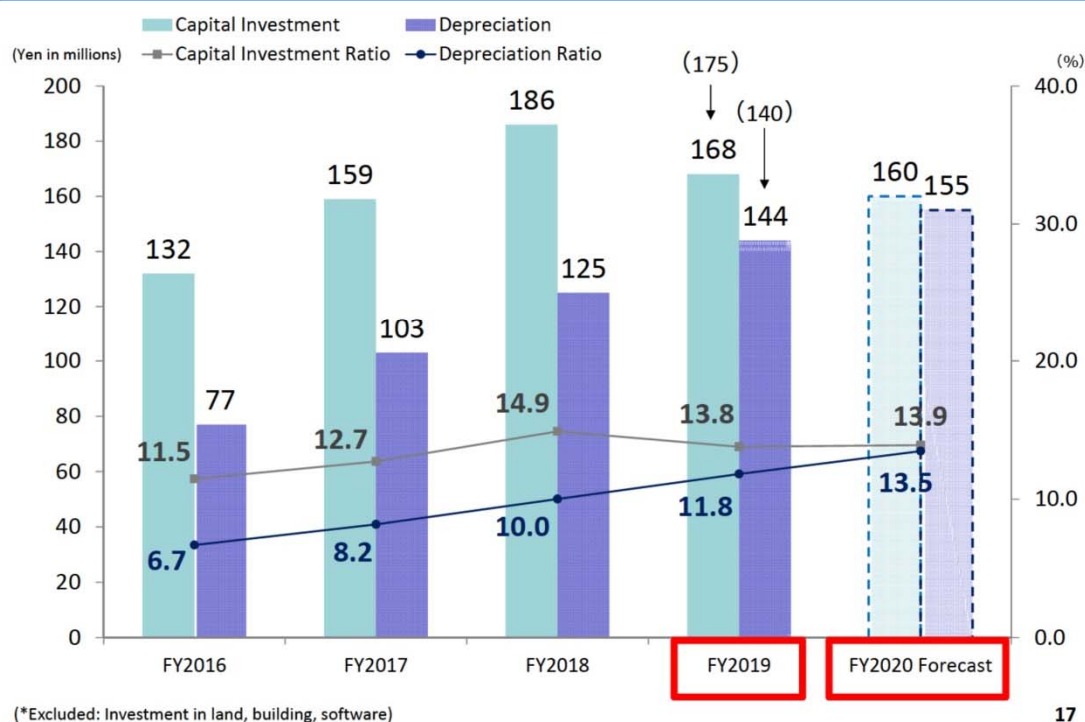


16

Next, on page 16, we show the overseas ratio. The overseas sales ratio is shown by the line graph on the top, while the overseas production ratio is indicated by the line graph on the bottom. The sales ratio for FY2019 was 74%, up two percentage points from last year, with growth coming mainly from the Smartphone and Digital Consumer Electronics applications.

The overseas production ratio rose to 46% from 42%, indicating a significant uptick, mainly on production increases for Smartphone application in Korea.

### Capital Investment and Depreciation Change (Consolidated Basis)



Next, see page 17 for changes in capital investment and depreciation.

Capital investment amounted to JPY16.8 billion in FY2019, with a capital investment-to-sales ratio of 13.8%. Depreciation totaled JPY14.4 billion, with a depreciation-to-sales ratio of 11.8%.

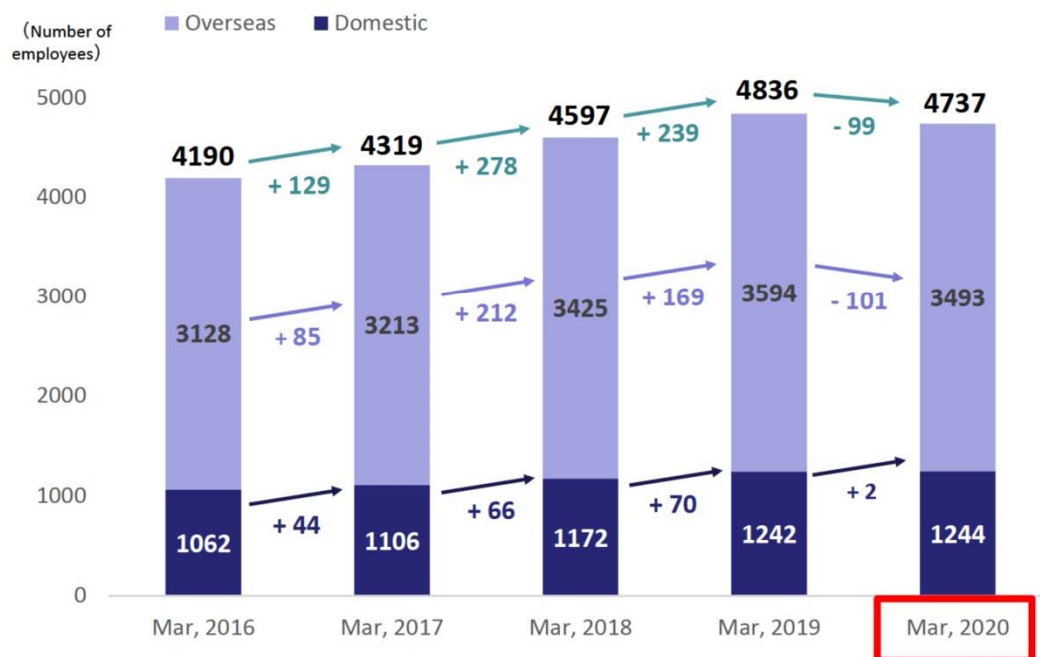
The figures in parentheses above, JPY16.8 billion and JPY14.4 billion, are our forecast issued along with second-quarter results. We expected JPY17.5 billion in capital investment, which came in slightly lower at JPY16.8 billion. We forecast depreciation of JPY14.0 billion in depreciation, which finished slightly higher at JPY14.4 billion.

Regarding our FY2020 forecast, we target capital investment of JPY16.0 billion and depreciation of JPY15.5 billion.

I'll explain the results and forecast for R&D expenses, too, though we did not write them down.

In FY2019, R&D expenses amounted to JPY12.0 billion. For FY2020, we expect R&D expenses to remain flat at JPY12.0 billion.

### Number of Employees ( Financial Report Basis )

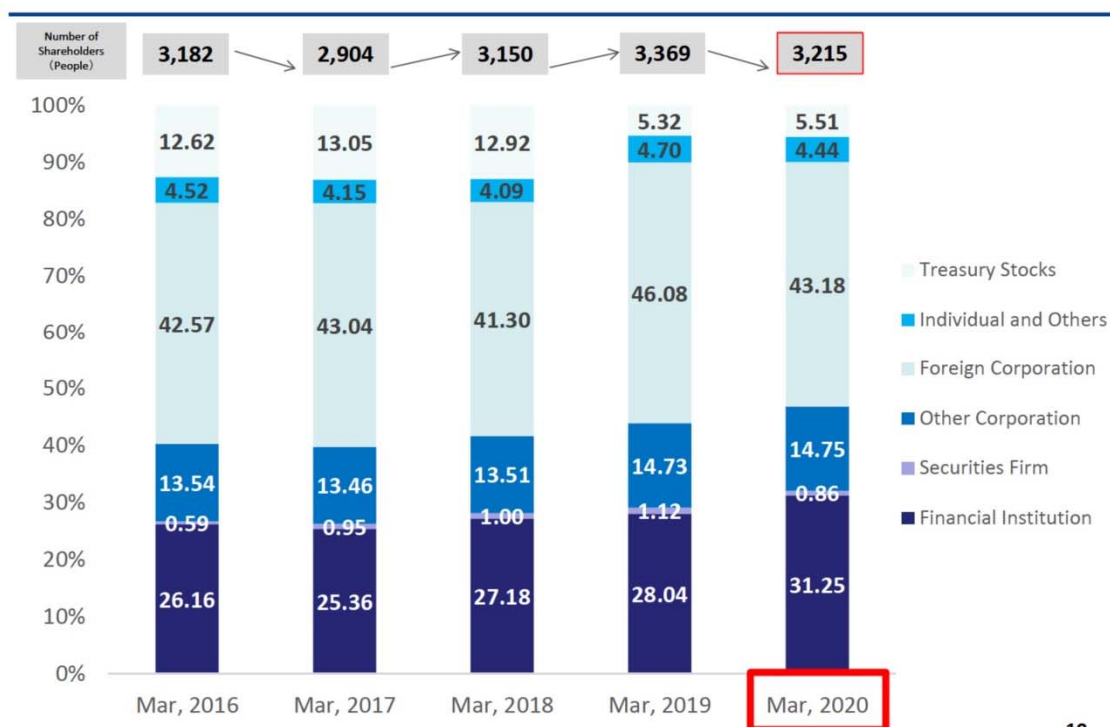


18

Next, see page 18 for changes in the number of employees. The bar graph on the top represents the overseas employees, and the bar graph on the bottom reflects the employees in Japan. In Japan, we recorded a net increase of two employees to 1,244. Although we hired new graduates, this was offset by an organic decrease, resulting in the number remaining roughly flat.

Overseas, we posted a net decrease of 101 employees to 3,493, mainly on a decrease in employees at plants.

### Distribution of Shareholders

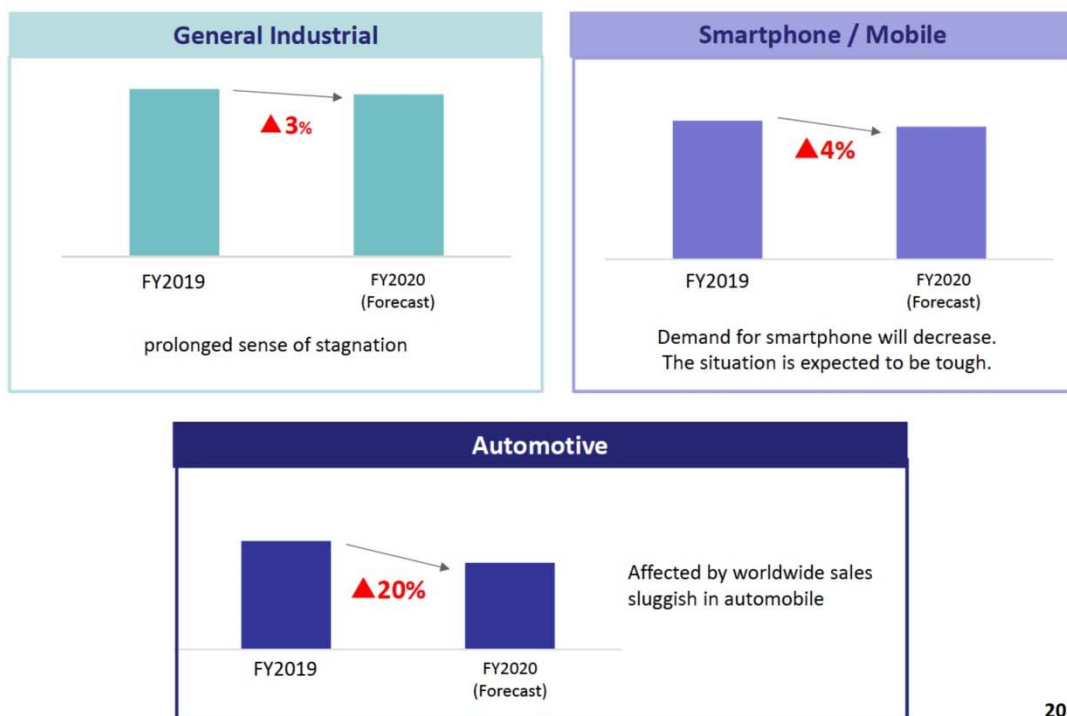


Next, on page 19, we show the shareholder distribution.

The light blue area on the top that says 43.18% represents overseas corporations. The weighting declined, by roughly three percentage points, to 43.18% from 46.08% in the fiscal year ended March 2019, mainly attributable to a decrease in the number of shares held by overseas institutional investors.

On the very bottom is the weighting for financial institutions. The weighting rose, by roughly three percentage points, to 31.25%, chiefly due to a rise in purchases by Japanese asset management firms.

### FY2020 Attitude by applications (Forecast)



Next, on page 20, we describe our FY2020 forecasts by application.

Although we indicate our overall outlook on the next slide, we will first go over our forecast by application.

For General Industrial, we forecast a decrease of 3%. Our view is that the stagnation will grow prolonged, with the recovery taking anywhere from six months to a year. We also saw a sharp decline in the previous fiscal year, so we expect the decrease to continue.

For Smartphone, we forecast a decrease of 4%. Although 5G-related demand will likely boost sales, our underlying assumption is that the tough market environment will diminish demand for smartphones. Thus, we do not hold an optimistic view.

For Automotive, shown on the bottom, we expect the sluggish performance to continue on a tough market environment, and we forecast a 20% decline. That said, forecasting performance in this domain is the most difficult, and we merely indicated this figure as a current estimate.

**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
<b>Sales</b>	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%				
<b>Operating Profit</b>	115.3	203.6	85.0	172.0	-30.3	-26.3	-31.6	-15.5
(%)	19.1%	16.7%	17.0%	15.0%				
<b>Earnings before income tax</b>	120.9	212.1	90.0	180.0	-30.9	-25.5	-32.1	-15.1
(%)	20.1%	17.4%	18.0%	15.7%				
<b>Net Profit</b>	85.7	153.1	60.0	130.0	-25.7	-30.0	-23.1	-15.1
(%)	14.2%	14.4%	12.0%	11.3%				
<b>Income Per Share</b>	—	420.39 yen	—	358.45 yen				
<b>Dividend Per Share</b>	120 yen	240 yen	120 yen	240 yen				
<b>Consolidated Dividend Payout Ratio</b>	—	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

21

Next, page 21 shows a summary of the earnings forecast.

As for our forecast for FY2020, we expect sales of JPY115.0 billion, down 5.6%. We project operating profit of JPY17.2 billion, down 15.5%, with a profit margin of 15.0%. We forecast earnings before income tax of JPY18.0 billion, net profit of JPY13.0 billion, and earnings per share of JPY358.45.

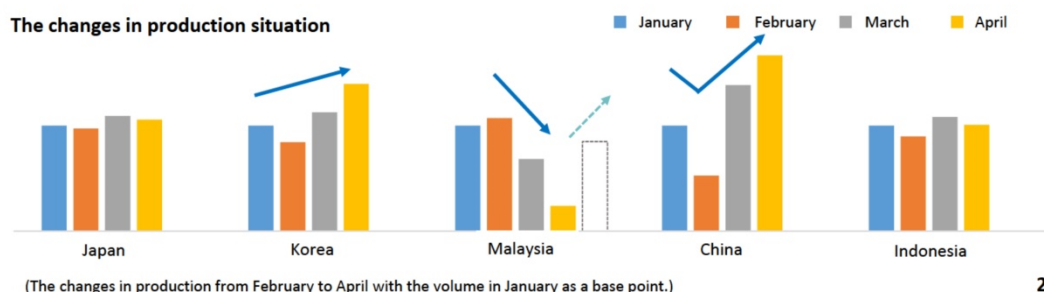
Although we intend to explain about dividends again later, we plan to retain our annual dividend of JPY240 per share, which we expect would render a dividend payout ratio of 67%.

Regarding our exchange rate assumptions, we forecast JPY107 to the US dollar, JPY117 to the euro, and JPY 0.088 to the Korean won, assuming a stronger yen in all pairs.

## 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



22

Next, see page 22. We will briefly explain measures to prevent COVID-19's spread and production status.

Our basic measures to prevent the virus's spread have included taking temperature, wearing masks, using sanitizers, and gargling. We also prohibited business trips and promoted telework by utilizing online and phone conferences in April and May.

Starting from June, we will move back to in-house operations in principle while partly using teleworking. That said, we will place the health and safety of all stakeholders first as we strive to return to normalcy.

The changes in the current production situation are shown as a simple index by country.

All graphs are indexed to the January production level for each region, and they show changes against this index for February, March, and April. I hope you use these graphs to grasp the general movement of production levels.

First, if you take a look at the production situation in Japan and the situation in Indonesia on the very right, you can see the production level has not changed much from January to April. Major changes were seen in Korea, Malaysia, and China, with particularly noticeable changes in Malaysia and China.

In China, where COVID-19's impact on business emerged first, the production level dropped sharply in February but recovered in March and April. As things stand, the production situation and sales structure in China are already back to normal.

We also saw a significant impact on production in Malaysia. We experienced a drop in production levels in March and April, as we adhered to the Malaysian government's directive to restrict activities. As shown by



the dotted lines next to the bar for April, we are currently striving to return the production level to normal from May through June.



### Koriyama Hirose Electric acquired land

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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 47,700m<sup>2</sup>, details of the new building will be planned. The operation will be started within FY2022.

23

Next, we’ll talk about the land we acquired in Koriyama on page 23.

We signed a contract with Koriyama city on April 30 to acquire the land in Koriyama Seibu No. 1 Industrial Park. The land covers an area roughly 1.7 times larger than the current Koriyama Plant.

It’s been almost 40 years since we began the operation of Koriyama Plant in 1982. We’ll continue to position it as the main production base of HIROSE Group, premised on production results and business continuity.

To achieve medium to long-term evolution and expansion, we aim to improve safety and efficacy, including against unforeseen natural disasters. In this context, we decided to acquire the land.

Although our plans about a building are undecided, we intend to make progress with our eyes set on starting operations by the end of FY2023.

This concludes my explanation of this section. Next, Fukumoto, the Group President of the Administration Group, will go over the next section.



## 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.

24

**Fukumoto:** Good morning. This is Fukumoto of the Administration Group. Thank you for today.

This time, we had to push back the earnings announcement by about 20 days from the original date on May 8, due to the impact of the activity restrictions in Malaysia, as briefly touched on earlier.

Against this backdrop, I'd like to talk about the information covered in the next two pages.

First, as we already announced in a news release, we made some personnel changes on page 24. We plan to have the annual general meeting on June 26, and the term of office of our directors is one year. Thus, 8 directors including Ishii have been reappointed.

In addition, we newly appointed Mr. Nishimatsu as an outside director. We will be welcoming him as a newly appointed director. I hope you will check the information we announced on May 8 for his profile and details.

Also, we will reappoint Mr. Sugishima as our corporate auditor with a four-year term.

We now have nine directors in total, of which three will be outside directors. Although many standards exist, we intend to stick to this format of outside directors accounting for at least one-third of directors.

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.

25

Next, see page 25. First, I said at the briefing last year that I will be announcing the medium-term capital policy at this year's briefing. I had been preparing for this announcement until just recently, but COVID-19 impacted these preparations. As a result, we decided to postpone the announcement this time.

We noted the need to review the medium-term direction of HIROSE ELECTRIC CO., LTD.'s operations once again in light of the impact of COVID-19.

At present, we believe it is extremely difficult to forecast the medium-term impact of COVID-19 on our business. Although we announced the earnings forecast for this fiscal year premised on assumptions explained earlier, some people will likely say our view is too optimistic, while others might say it looks fairly reasonable. Honestly, we find it difficult to forecast future performance under the current circumstances.

It is against this backdrop that we formulated our assumptions and announced our forecasts for FY2020.

That said, it should be noted that we must continue to operate the business from a medium-term standpoint. As written here, we need to focus on our stakeholders, including employees, albeit the order listed here does not necessarily reflect the order of priority. The point we highlight here is that, regardless of the impact from COVID-19, we see the need to continue to pursue the basic policy of stable employment, as well as the need to train human resources.

We also need to focus on customers. We look to make continuous efforts to develop products with high added value that meet customer needs. We must strive steadily to provide a stable supply of high-quality products.

Next, we need to focus on partners, including cooperating companies. The impact of COVID-19 will likely cause many inconveniences, so we may need to provide various tangible and intangible supports.

Also, we need to focus on communities. This includes contributing to the regional society, including environmental protection, as well as adhering to the proper tax payment practices.

Finally, we need to focus on shareholders. We need to make sure HIROSE ELECTRIC CO., LTD. continues to be a sustainable company that investors can invest in with peace of mind. With that goal in mind, we aim to distribute returns to shareholders in compensation for their support.

We intend to actively utilize the financial assets we possess and the operating cash flows, which will be generated in the future, while emphasizing all of these stakeholders. We will also strive for business management that places the foremost priority on sustainability.

We also described here about the announcement of our medium-term capital policy. Until recently, we were formulating a medium-term plan from 2020 to around 2023, with considerations of implementing a certain degree of share buybacks.

However, we are forced to issue forecasts of a decline in both sales and profits for FY2020 earnings, with a particularly sharp impact on the Automotive business, which we strengthened through the allocation of resources over the last few years aimed at growth. Including relevant spending between 2015 and 2019, we invested roughly JPY3.0 billion per year.

We also increased development personnel by about 2.5 times to 3 times. However, we now expect the business environment to be extremely challenging in the near term, making it difficult to reap the benefits of these investments.

Accordingly, under the current situation, we see the need to rebuild the medium-term business plan once again, aiming for sustainable and stable growth in the future, and we will be working towards this end.

As for the economic recovery, there are various theories. Some say it will be V-shaped, while others say it will be a U or a W, or it will remain sluggish like an L. I'm sure there are various ways to look at it, but it's difficult to tell what the recovery will look like at this point. In any case, we will rebuild our medium-term business plan, and we intend to announce the capital policy.

Although we originally planned to announce the plan at this time, we will not be able to do so due to the current business environment. We feel very sorry to our shareholders, who were looking forward to the medium-term business plan. We hope you will give us a little more time until the plan is ready.

Note that, despite the current situation, we will maintain the dividend of JPY240 per share in FY2020, as explained earlier. Even though we assume this would make the dividend payout ratio jump to 67%, we intend to continue the shareholder returns in practice.

This concludes my explanation.

**Ishii:** The current situation is a first-time experience for us, too. Instead of viewing things from the conventional perspective, we need to take additional measures by simulating various patterns of response to overcome the situation.

We intend to take action inside the company with the recognition that the ability with which we respond to the current situation could even determine the course of our medium-to-long-term performance.

In that sense, we hope to enhance our activities further while continuing to receive your support and guidance, so we ask for your continued cooperation.

This concludes the briefing. Thank you.

## Disclaimer

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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.