

Hirose Electric Business Results for the First Quarter of FY2020

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August 4, 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.

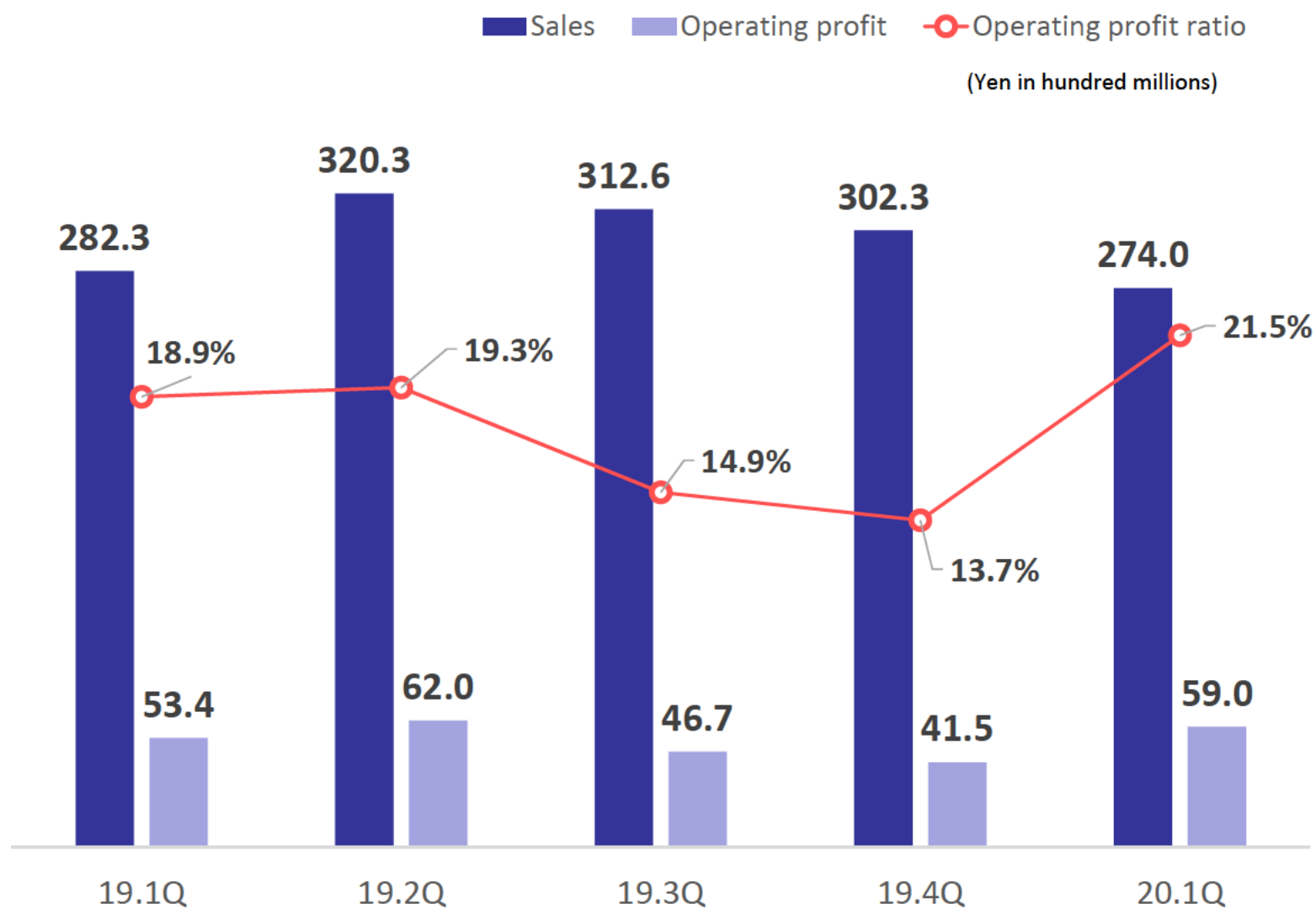
Summary of the business results (FY2020.1Q From April, 2020 to June, 2020)

- In the first quarter of FY2020, economic activities has remained stagnant due to the global impact of COVID-19. As a result, the sales **decreased by 3.0%** year-on-year.
- Operating profit includes insurance money for Koriyama flood damages occurred in the previous fiscal year (other income: 1.5 billion yen) and **increased by 10.4%** compared to FY2019.1Q.

(Yen in hundred millions)

	FY2019.1Q (2019.Apr-Jun)	FY2019.4Q (2020.Jan-Mar)	FY2020.1Q (2020.Apr-Jun)	YoY (FY2020.1Q / FY2019.1Q)	QoQ (FY2020.1Q / FY2019.4Q)
Order	300.8	319.3	277.4	-7.8%	-13.1%
Sales	282.3	302.3	274.0	-3.0%	-9.4%
Operating profit	53.4	41.5	59.0	10.4%	42.1%
Operating profit ratio	18.9%	13.7%	21.5%	+2.6pt	+7.8pt

Changes in sales and operating profit (FY2019.1Q-FY2020.1Q / Consolidated basis)



Business Results for FY2020.1Q

(Yen in hundred millions)	FY2019.1Q (FY ended June 30, 2019)	FY2020.1Q (FY ended June 30, 2020)	Increase / Decrease (YoY)	Increase / Decrease Ratio (YoY)	
Sales	282.3	274.0	-8.3	-3.0%	
COGS Ratio	57.5%	58.0%	+0.5		
SGA Ratio	26.7%	26.0%	-0.7		
Operating Profit	53.4	59.0	+5.6	10.4%	
(%)	18.9%	21.5%	+2.6		
Earnings before income tax	56.7	60.9	+4.2	7.4%	
(%)	20.1%	22.2%	+2.1		
Net profit	40.7	44.2	+3.5	8.6%	
(%)	14.4%	16.1%	+1.7		
Total Assets	3,421.0	3,436.4			
Shareholder's Equity Ratio	88.8%	89.4%			
			1US\$	FY2019.1Q 109.90 yen	FY2020.1Q 107.62 yen
			1€	123.49 yen	118.48 yen
Income Per Share	111.56 yen	121.78 yen	100 won	FY2019.1Q 9.43 yen	FY2020.1Q 8.83 yen

Major Changes over 1Q of FY2019

(Yen in hundred millions)

Sales

8.3 hundred million yen **Decreased**
(282.3 → 274.0)

Non consolidated Hirose: +11.2
Subsidiaries: -19.5

COGS Ratio

0.5pt Deteriorated
(57.5% → 58.0%)

Purchase Cost Ratio: 38.4% → **39.2%**
Depreciation Ratio: 10.7% → **11.9%**

SGA Ratio

0.7pt Improved
(26.7% → 26.0%)

75.5 → 71.3 (Decreased by 4.2)

Financial revenue / expense

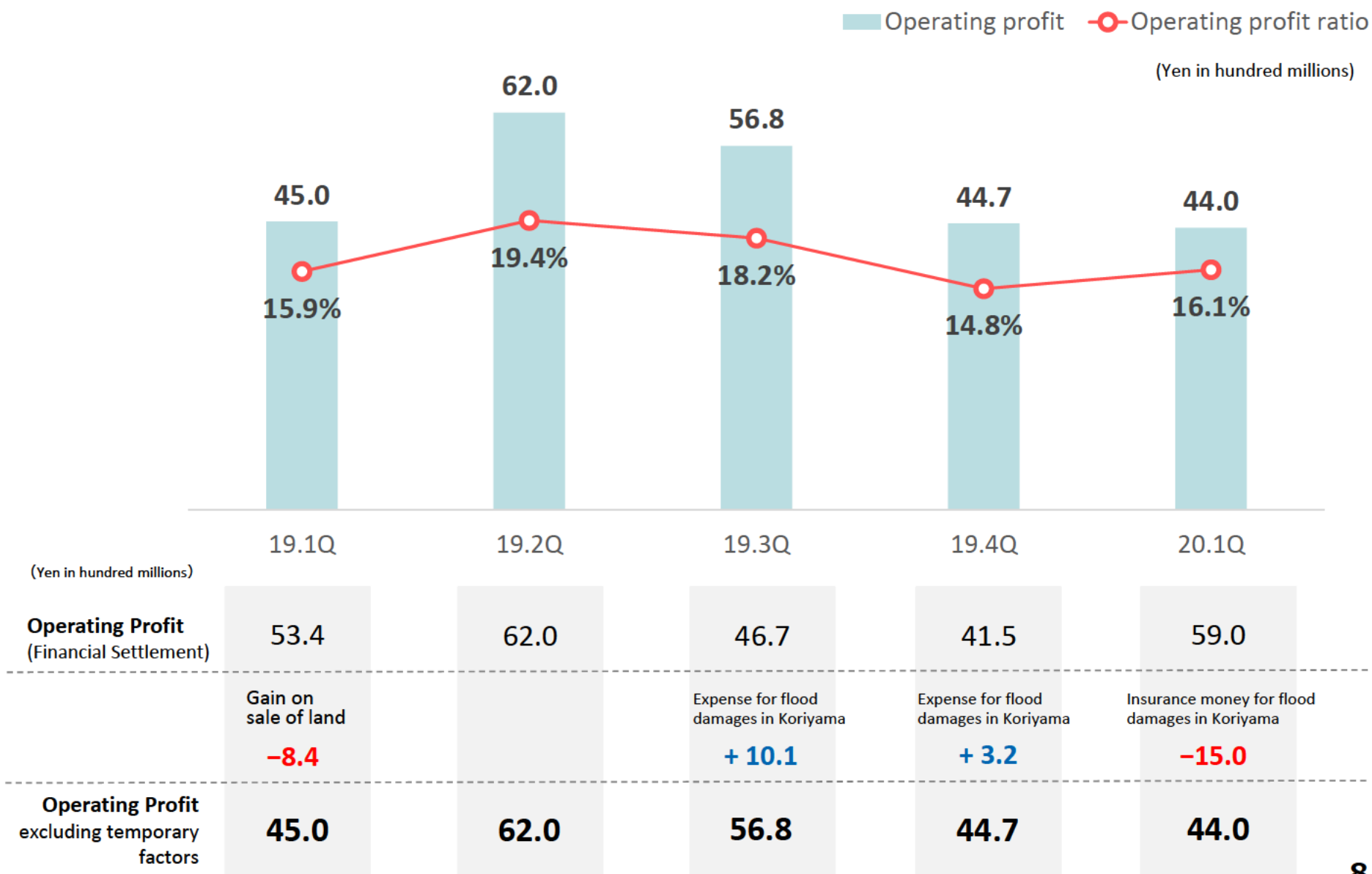
1.4 hundred million yen **Deteriorated**
(+3.4 → +2.0)

FY2020.1Q YoY Variation Analysis

(Yen in hundred millions)

	Sales	Operating Profit	(%)	Earnings before income tax	(%)
FY2019.1Q Actual	282.3	53.4	18.9%	56.7	20.1%
Exchange rate	-6.3	-3.6		-4.2	
Depreciation cost increase		-2.9		-2.9	
Labor cost decrease		2.8		2.8	
Decrease in the product	-2.1	-0.8		-0.8	
Gain on sale of land		-8.4		-8.4	
Insurance income		15.0		15.0	
Decrease in travel and overseas travel expenses		2.5		2.5	
Others		1.1		0.3	
Total amount of changes	-8.3	5.6		4.2	
FY2020.1Q Actual	274.0	59.0	21.5%	60.9	22.2%

Changes in operating profit excluding temporary factors (FY2019.1Q-FY2020.1Q)



Consolidated Balance Sheet

(Yen in hundred millions)

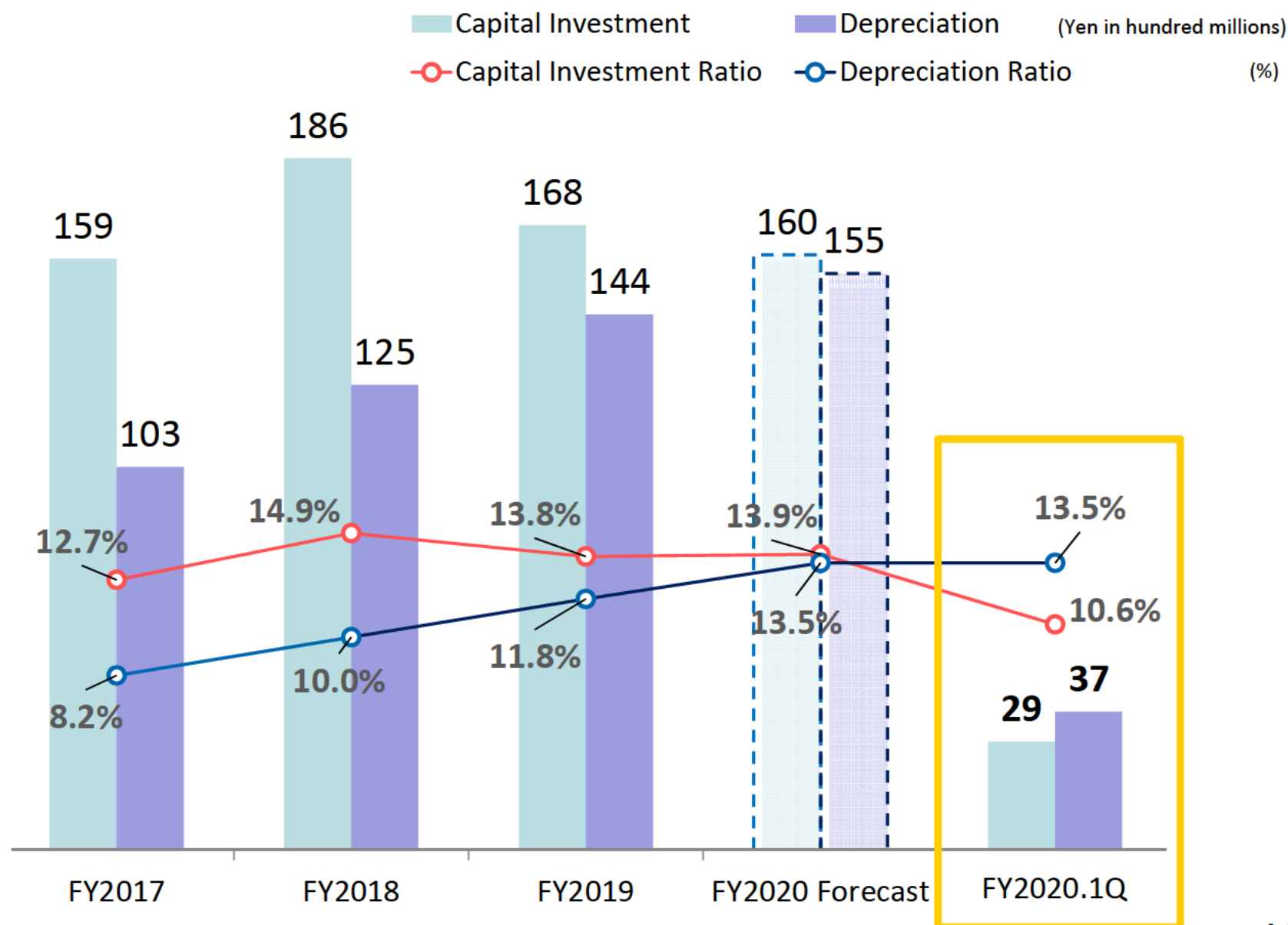
	Account	Mar 31, 2020	June 30, 2020	Increase / Decrease	Remark
Assets	Cash and cash equivalents	505.6	525.4	19.8	Maturity of fixed deposit, others
	Trade and other receivables	304.4	294.6	-9.9	
	Inventories	145.1	163.5	18.4	Increase in inventories of overseas sales offices
	Other financial assets	1,706.8	1,703.4	-3.4	
	Tangible fixed assets	615.4	615.4	0.0	
	Right-of-use asset	44.8	43.3	-1.5	
	Others	104.3	90.8	-13.4	
	Total Assets	3,426.4	3,436.4	9.9	
	Total of cash in bank	1,674.5	1,682.8	8.2	

Consolidated Balance Sheet

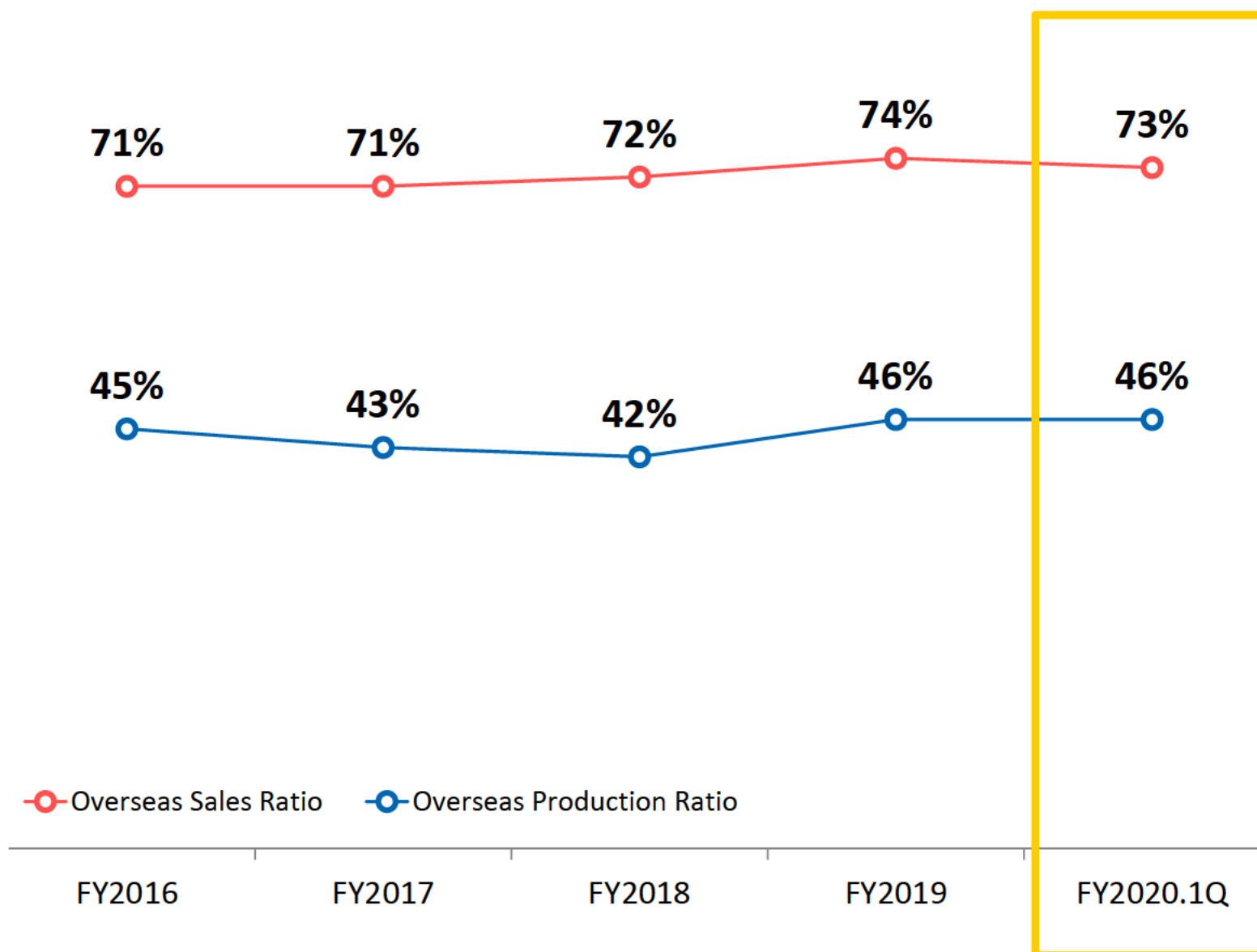
(Yen in hundred millions)

	Account	Mar 31, 2020	June 30, 2020	Increase / Decrease	Remark
Liabilities	Payables and other debt	167.5	177.5	10.1	
	Lease liabilities	44.9	43.4	-1.5	
	Income Taxes Payable	29.6	24.2	-5.5	
	Others	123.0	118.7	-4.3	
	Total	365.0	363.8	-1.2	
Shareholder's Equity	Capital stock and Capital surplus	207.0	206.9	-0.1	
	Retained Earnings	3,083.4	3,060.3	-23.1	Transfer to treasury stocks
	Treasury Stocks	-244.6	-220.8	23.8	Cancellation of treasury stock
	Others	15.6	26.0	10.4	
	Total	3,061.4	3,072.5	11.1	
Total Liabilities and Shareholder's Equity		3,426.4	3,436.4	9.9	

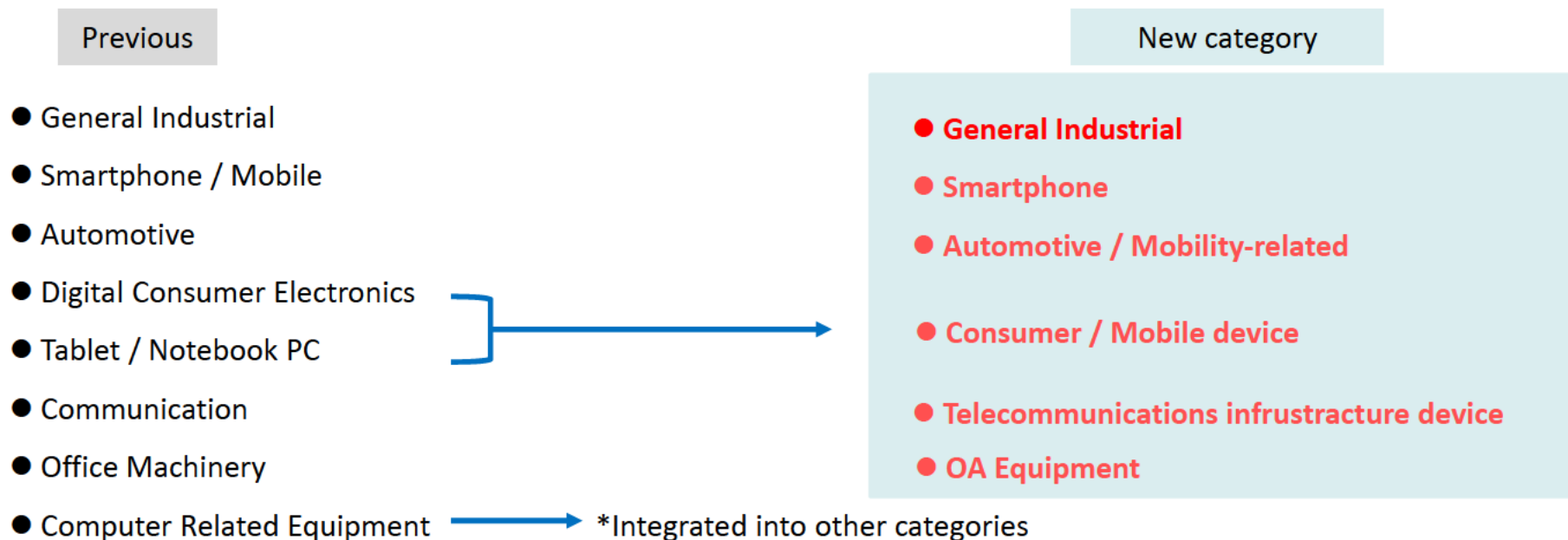
Changes in Capital Investment and Depreciation



Overseas production and sales ratio



Sales by Application reconsideration of the category and change of name



■ **From this fiscal year, we reconsidered the categories and changed the name of the sales by application.**

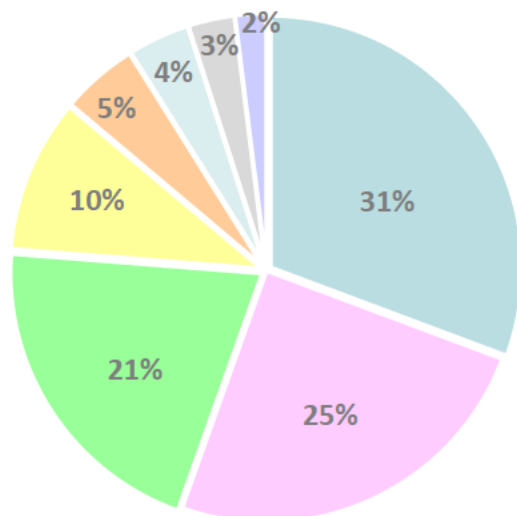
Until now, we expressed the sales figures by using index number, but we changed using actual amount.
 (Unit: Yen in hundred millions)

We also integrate similar categories to make it easier to understand the trend.
 (Note: There is no change that the sales by application are round figures.)

*Previous "Computer Related Equipment" was divided and integrated into other categories as below.
 "Banking terminal (General Industrial)" "PC related equipment (Consumer / Mobile device)"
 "Data center related (Telecommunications infrastructure device)" "Printer (OA Equipment)"

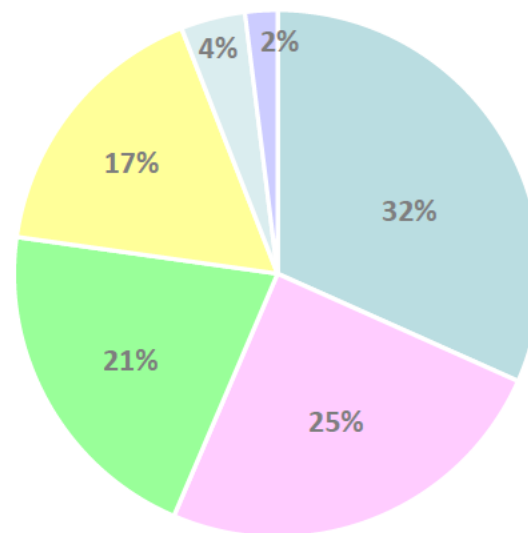
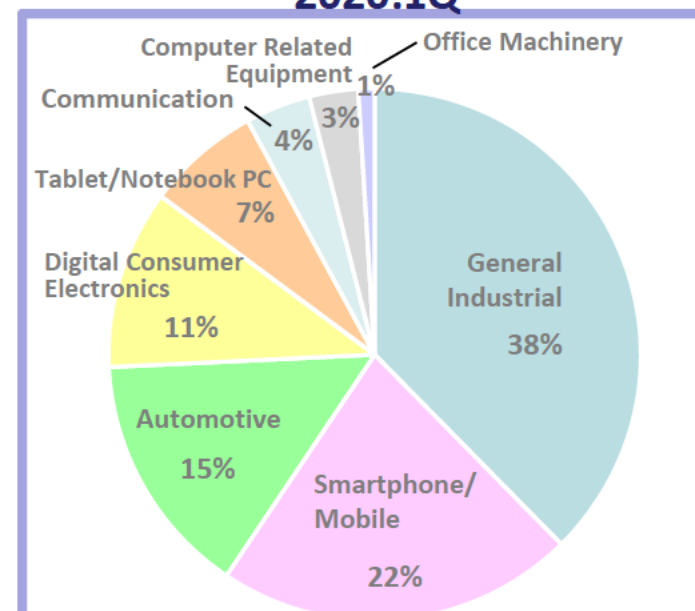
Sales compotision ratio by application (round number)

2019.1Q

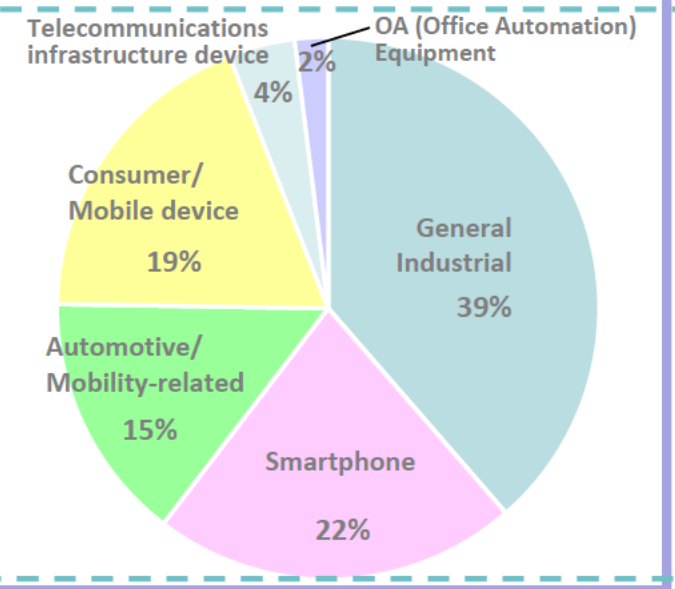


Previous category

2020.1Q



New category

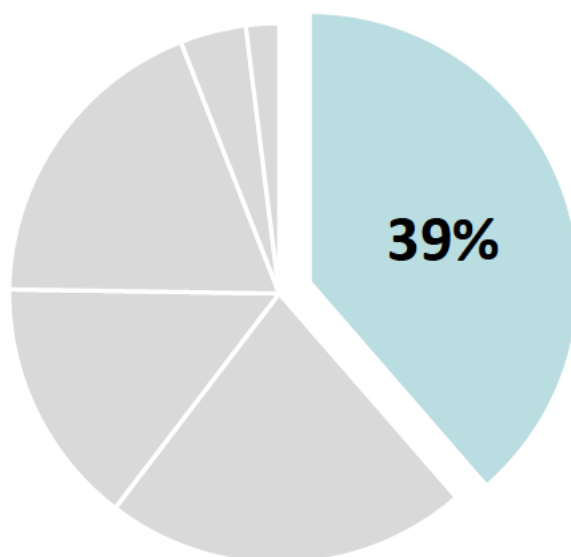


Sales by Application_General Industrial

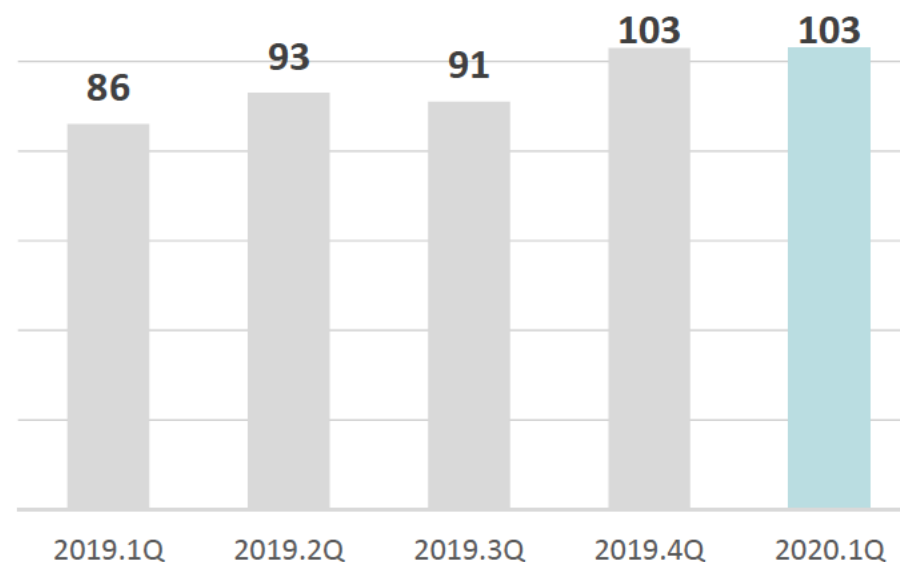
(Yen in hundred millions)

	FY2019.1Q	FY2019.4Q	FY2020.1Q	YoY (FY20.1Q/FY19.1Q)	QoQ (FY20.1Q/FY19.4Q)
Sales	86	103	103	20%	0%

● Composition ratio



● Changes in quarterly sales



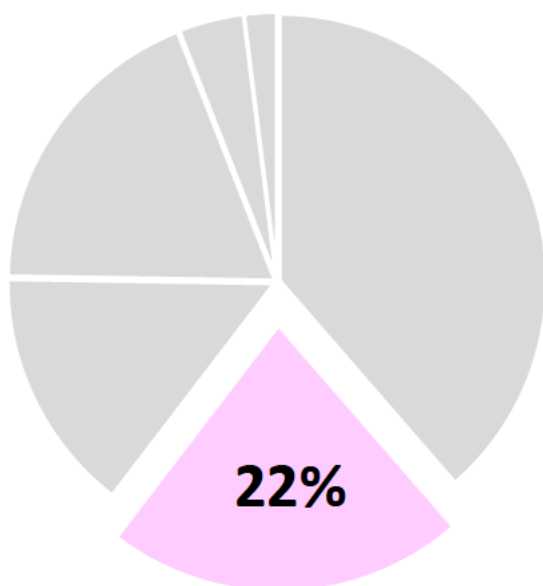
- Following the previous term (FY2019.4Q), some bulk orders are included.
- Recovery trend in the future is not clear

Sales by Application_Smartphone

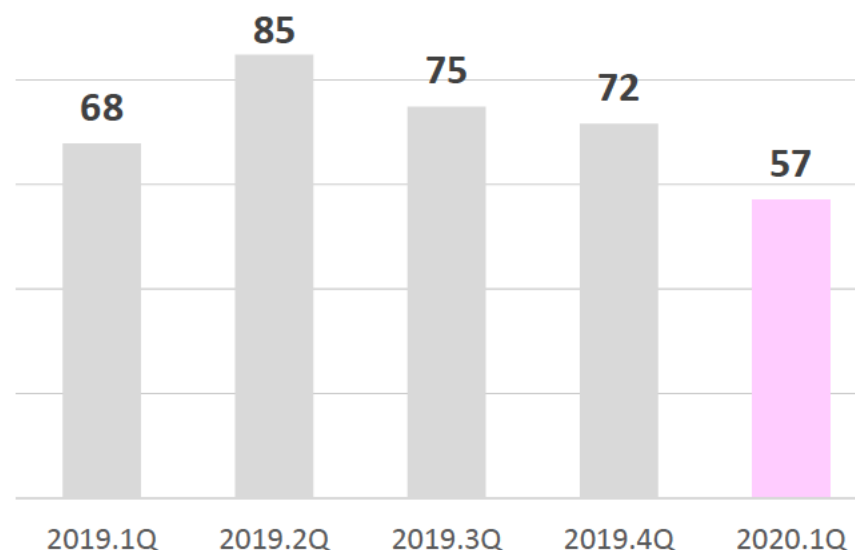
(Yen in hundred millions)

	FY2019.1Q	FY2019.4Q	FY2020.1Q	YoY (FY20.1Q/FY19.1Q)	QoQ (FY20.1Q/FY19.4Q)
Sales	68	72	57	-16%	-21%

● Composition ratio



● Changes in quarterly sales



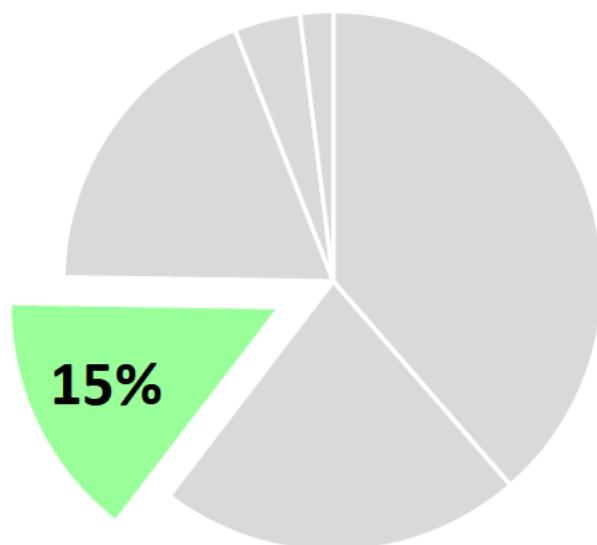
- The sales for smartphone declined in FY2020.1Q, but it includes some inventory adjustment. It is expected to remain high-level because of the expectation for 5G new models in the future.

Sales by Application_Automotive/Mobility-related

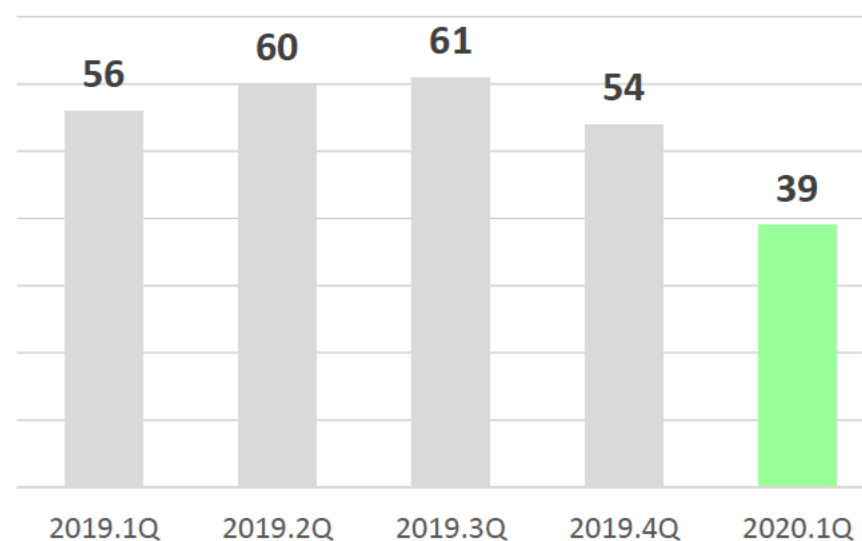
(Yen in hundred millions)

	FY2019.1Q	FY2019.4Q	FY2020.1Q	YoY (FY20.1Q/FY19.1Q)	QoQ (FY20.1Q/FY19.4Q)
Sales	56	54	39	-30%	-28%

● Composition ratio



● Changes in quarterly sales



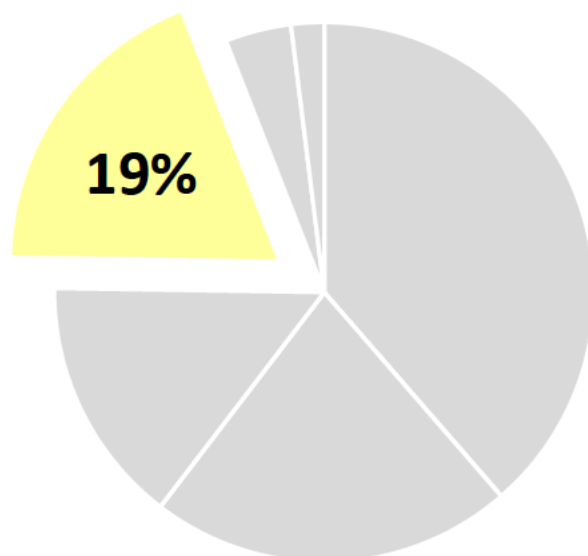
- The sales for automotive has been in downward trend following the previous term (FY2019.4Q).

Sales by Application_Consumer/Mobile Equipment

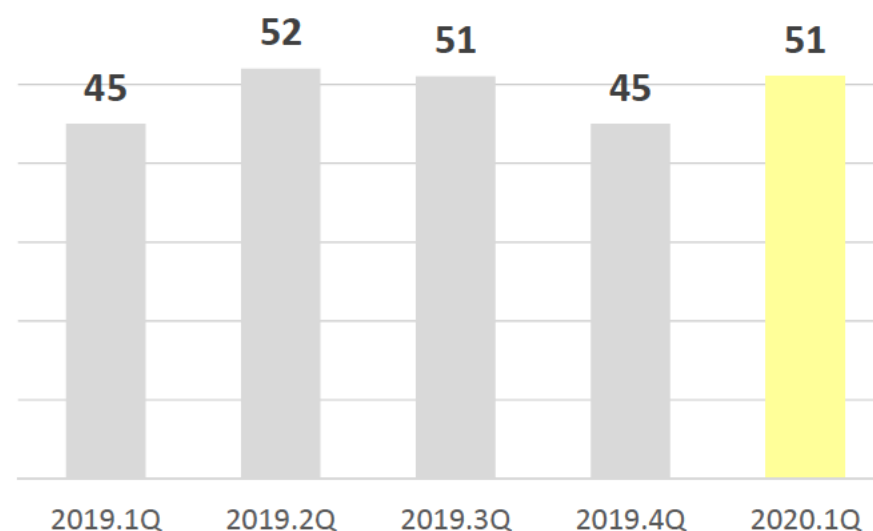
(Yen in hundred millions)

	FY2019.1Q	FY2019.4Q	FY2020.1Q	YoY (FY20.1Q/FY19.1Q)	QoQ (FY20.1Q/FY19.4Q)
Sales	45	45	51	+13%	+13%

● Composition ratio



● Changes in quarterly sales



- As one of the preventive measures against COVID-19, working from home is becoming popular. The demand for personal and small-sized consumer equipment increased temporarily.

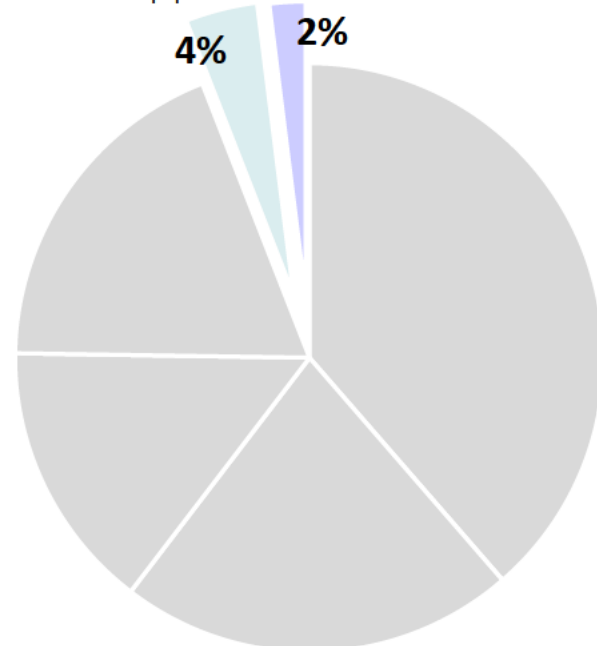
Sales by Application_Telecommunications infrastructure equipment / OA equipment

(Yen in hundred millions)

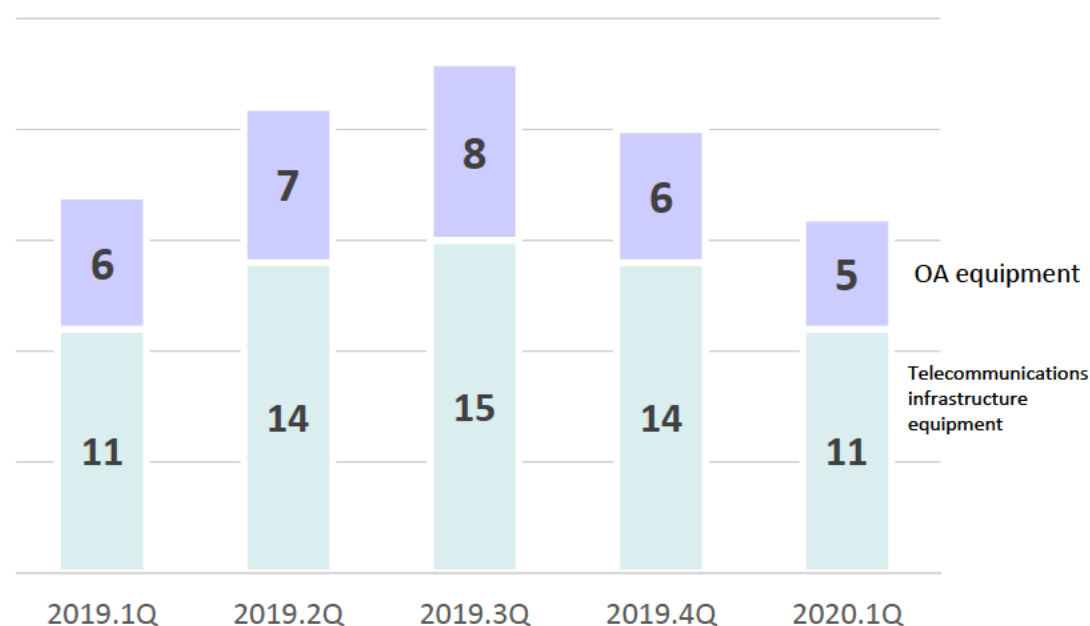
	FY2019.1Q	FY2019.4Q	FY2020.1Q	YoY (FY20.1Q/FY19.1Q)	QoQ (FY20.1Q/FY19.4Q)
Telecommunications infrastructure equipment	11	14	11	0%	-21%
OA (Office Automation) equipment	6	6	5	-17%	-17%

● Composition ratio

Telecommunications infrastructure equipment
OA equipment

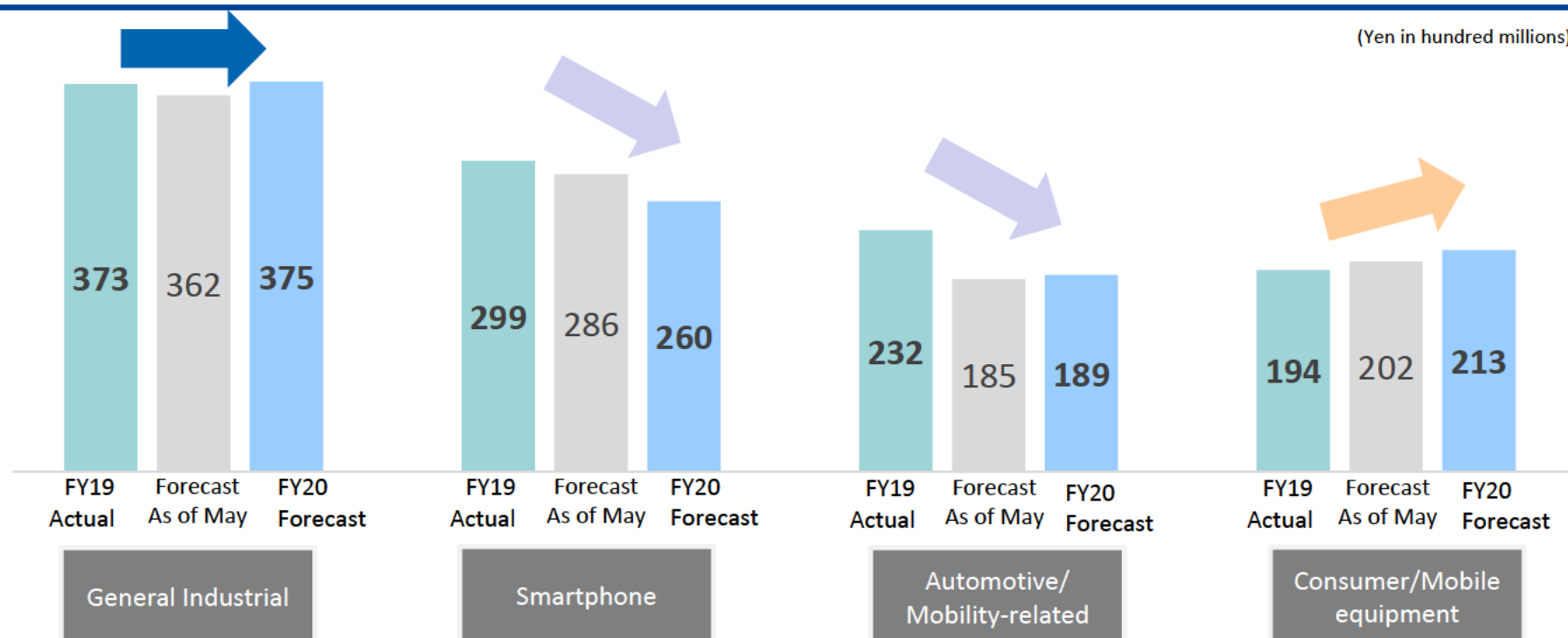


● Changes in quarterly sales



Annual sales forecast by applications [Updated]

(Yen in hundred millions)



[Forecast as of May, 2020 → Revised forecast of annual growth rate]

- General Industrial: Annual forecast was revised upward to slightly increase, but it is not in a recovery trend.
- Smartphone: Due to the impact of sluggish consumer spending affected by COVID-19, the forecast was revised down.
- Automotive / Mobility-related: The downward trend of this fiscal year is not changed, but we raised decreasing rate slightly.
- Consumer / Mobile equipment: At the beginning of the year, we expected the annual sales increase slightly. The estimation was revised up to a 10% increase.

[-3% → +1%]

[-4% → -13%]

[-20% → -18%]

[+4% → +10%]

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

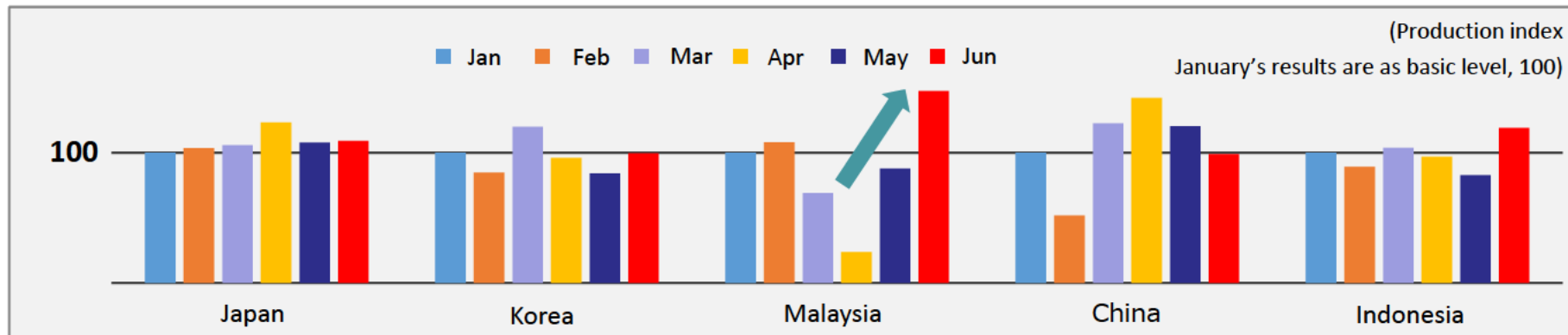
There is no change from the forecast announced in May, 2020.

(Yen in hundred millions)

	FY2019 (FY ended March 31, 2020) Actual		FY2020 (FY ending March 31, 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	1US\$	108.74 yen	107.62 yen	107.0 yen
Consolidated Dividend Payout Ratio	—	57.1%	—	67.0%	1€	120.82 yen	118.48 yen	117.0 yen
					100won	9.21 yen	8.83 yen	8.80 yen

COVID-19 (1) Efforts and Impacts related to production and development

Situation of production activity



- Due to the movement control order, the factory of Hirose Malaysia had been closed from March to April. A part of operation was resumed in May and the production was increased greatly from June.
- Although the production activity was restricted in China, February, and in Malaysia from March to April, other factory continued operation with taking preventive measures.

Other impacts

Logistics restriction	Since the number of flights reduced, transportation cost was increased temporarily.
R&D	Because employees were working from home for two months, some development project was delayed, but it is recovering.
Activity restriction	To ensure safety for customers and employees, business activity to the outside is restricted.

COVID-19 (2) Efforts to continue safety business

<p>Promoted working from home</p>	<p>From February to May: To prevent the spread of COVID-19 in all Hirose group, our business activity has been shifted to mainly working from home. We has been proceeding with cloud migration of our system. We could shifted working from home and minimized stagnation of business.</p>
<p>Promoted using online tools</p>	<p>We promote using online meetings, such as the board of director, financial results briefing and job interviews. To avoid the Three Cs, we use online conferences and information sharing systems for internal meeting. We also carried out webinar for outside engineers.</p>
<p>Distributed a handbook about COVID-19</p>	<p>We made a handbook describing right knowledge and measures of COVID-19 and distributed it in March. In July, we issued the second edition and promoted continuous awareness.</p>
<p>Daily management, warning and distributing face masks</p>	<p>For the persons concerned including employees, we are taking care of their health and calling attention. Setting the alcohol-based hand sanitizer at every place. Since it had been difficult to get face masks, we distributed disposable face masks to employees in Japan and other countries to prevent the spread of the infection.</p>

<News> The 16th JPCA Award

- Our “FX26 Series” received JPCA Incentive Award at the 16th JPCA Show Award.

*JPCA: Japan Printed Circuit Association



FX26 Series is a floating board to board connector having 140°C heat resistance and high vibration resistance. This series was developed for internal connection of automotive powertrains including inverter and motor control which are key parts of EV and HEV.

This product was elected after careful consideration conducted by JPCA selection committee consists of academic community, printed circuit industry and experts including technical journal editors.

FX26 Series which received the award is evaluated because this connectors have great vibration resistance and great heat resistance. Floating structure was introduced to the connecting parts and this could overcome stress concentration occurred at the time of replacing the internal connection of automotive powertrains with board to board connection.

Appendix

Sales by Applications round number (quarterly basis)

(Yen in hundred millions)

	FY2019				FY2020	Composition ratio by application
	1Q	2Q	3Q	4Q	1Q	
General Industrial	86	93	91	103	103	39%
Smartphone	68	85	75	72	57	22%
Automotive/Mobility-related	56	60	61	54	39	15%
Consumer / Mobile Device	45	52	51	45	51	19%
Telecommunications Infrastructure Equipment	11	14	15	14	11	4%
OA Equipment	6	7	8	6	5	2%
Total of Connector Sales	272	311	302	293	265	100%
Others	11	9	11	9	9	
Total	282	320	313	302	274	