HIROSE ELECTRIC CO., LTD.

Q1 Financial Results Briefing for the Fiscal Year Ending March 2021

August 4, 2020

Event Summary

[Company Name]	HIROSE ELECTRIC CO., LTD.	
[Event Type]	Earnings Announcement	
[Event Name]	Q1 Financial Results Briefing for the Fiscal Year Ending March 2021	
[Fiscal Period]	FY2020 Q1	
[Date]	August 4, 2020	
[Time]	10:30 – 11:34 (Total: 64 minutes, Presentation: 35 minutes, Q&A: 29 minutes)	
[Venue]	Webcast	
[Number of Speakers]	2	
	Hiroshi Fukumoto	Corporate Board Director, Group President, Administration Group
	Hideo Suzaki	Manager, IR Office, Administration Group

Presentation

Suzaki: It’s time now, so we will begin the financial results briefing meeting for Q1 of the fiscal year ending March 31, 2021, of HIROSE ELECTRIC CO., LTD.

Thank you for participating today. My name is Suzaki from the IR Office, and I will be the moderator today. Thanks. As in the previous briefing meeting held in May, today’s meeting will be held in Web format.

All of the materials, including the results summary, presentation, and English materials, can be found on the Investor Relations page of our website. Please use them as needed.

Today’s agenda will first include greetings and an explanation of overall trends by Fukumoto, who is Corporate Board Director and Group President of the Administration Group. Next, I will give an explanation following the presentation materials. After that, we will move on to the Q&A session. The meeting is scheduled to end at 11:30 AM. We ask for your cooperation.

Now, Fukumoto will proceed.

Fukumoto: Good morning. This is Fukumoto of HIROSE ELECTRIC. Thank you for participating in our briefing meeting once again for this quarter.

Suzaki will give a detailed explanation. I would like to talk a little in the beginning.

HRS

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

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First, could you turn to page three?

In Q1, sales were JPY27.4 billion, operating profit was JPY5.9 billion, and the operating margin was 21.5%. The operating margin exceeded 20% in this quarter. We had not passed this threshold since Q3 of FY2018 when the operating margin reached 23.4%.

When looking at the numbers alone, the results appear favorable. But, if we look at the details, as described here, we received insurance money for the Koriyama flood damages, which occurred in the previous fiscal year, amounting to JPY1.5 billion. Factoring out this amount, operating profit would be JPY4.4 billion, and the operating margin would be 16.1%, meaning that there is still room for improvement until reaching our goal. In our understanding, we are in a stage that requires effort.

Based on these results, we leave our forecasts for 1H and the full year, announced on May 28, unchanged.

In particular, we announced 1H targets of JPY50 billion in sales and JPY8.5 billion in operating profit. A simple calculation points to a considerable decline in sales in Q2 and a decrease in profits, too. We intend to achieve the announced targets for 1H, and from there, to aim even higher.

The reason why we left guidance unchanged is in part due to bulk orders and sales that we booked for some customers, mainly for use in industrial machinery, during Q1. We haven't been able to develop a clear outlook on how orders and sales for these customers will pull back from August onwards.

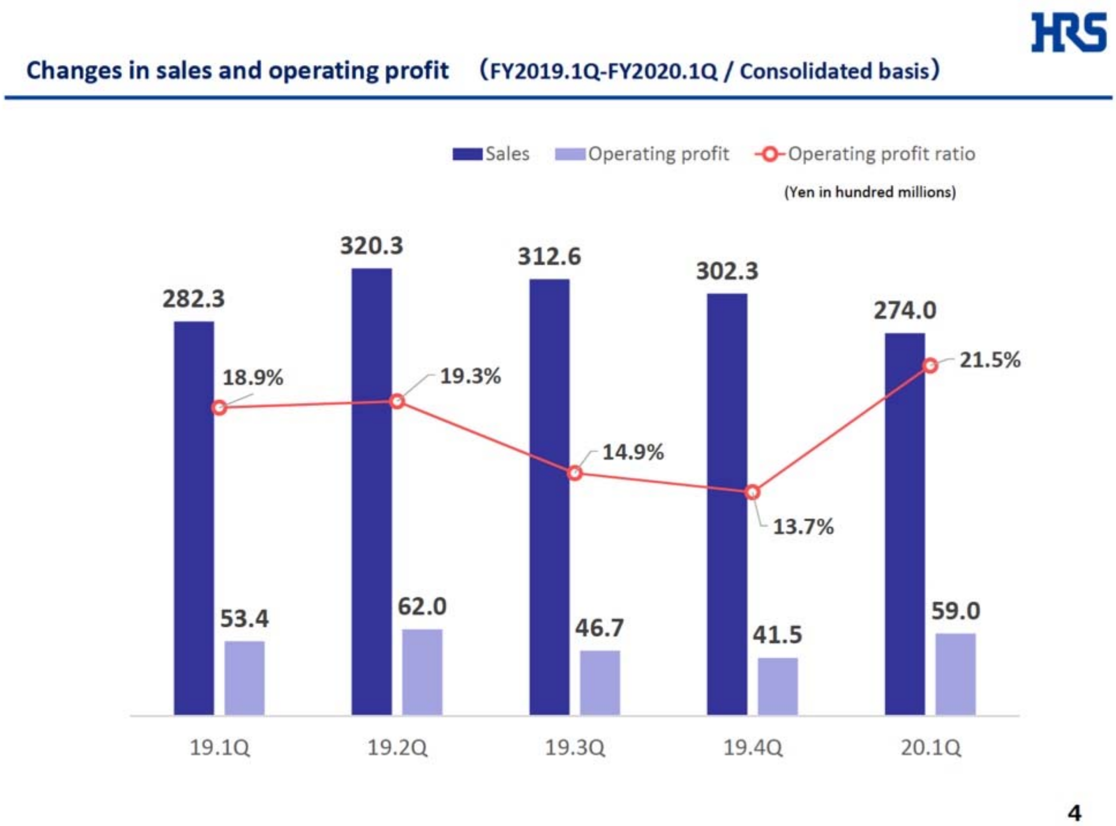
Also, Suzaki of the IR Office will cover the details not only of the results described in the presentation material, but also the impact of COVID-19 and our countermeasures, as well as our product that received the JPCA Incentive Award from the Japan Printed Circuit Association.

In addition, to provide information to everyone in a clearer manner, we revised the structure and notation of the presentation material starting from this time. This is still a work in process, so if you have any feedback, we'd appreciate it if you can notify us later.

This time, again, we have posted the English version of the results summary on the Investor Relations page of our website at the same time as the Japanese version. We hope you will make use of this.

Suzaki, please proceed.

Suzaki: I will now give an explanation following the presentation materials.



Please turn to page four. This page shows our sales and operating profit.

As explained earlier, operating profit includes insurance money for the Koriyama flood damages. In addition, operating profit in Q1 of the previous year included gains from the sale of land. We prepared a supplementary material on these matters so that you can look at the underlying strength of the business. I will go over that later.

HRS

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%**		
Income Per Share	**111.56 yen**	**121.78 yen**		

	FY2019.1Q	FY2020.1Q
1US$	109.90 yen	**107.62 yen**
1€	123.49 yen	**118.48 yen**
100 won	9.43 yen	**8.83 yen**

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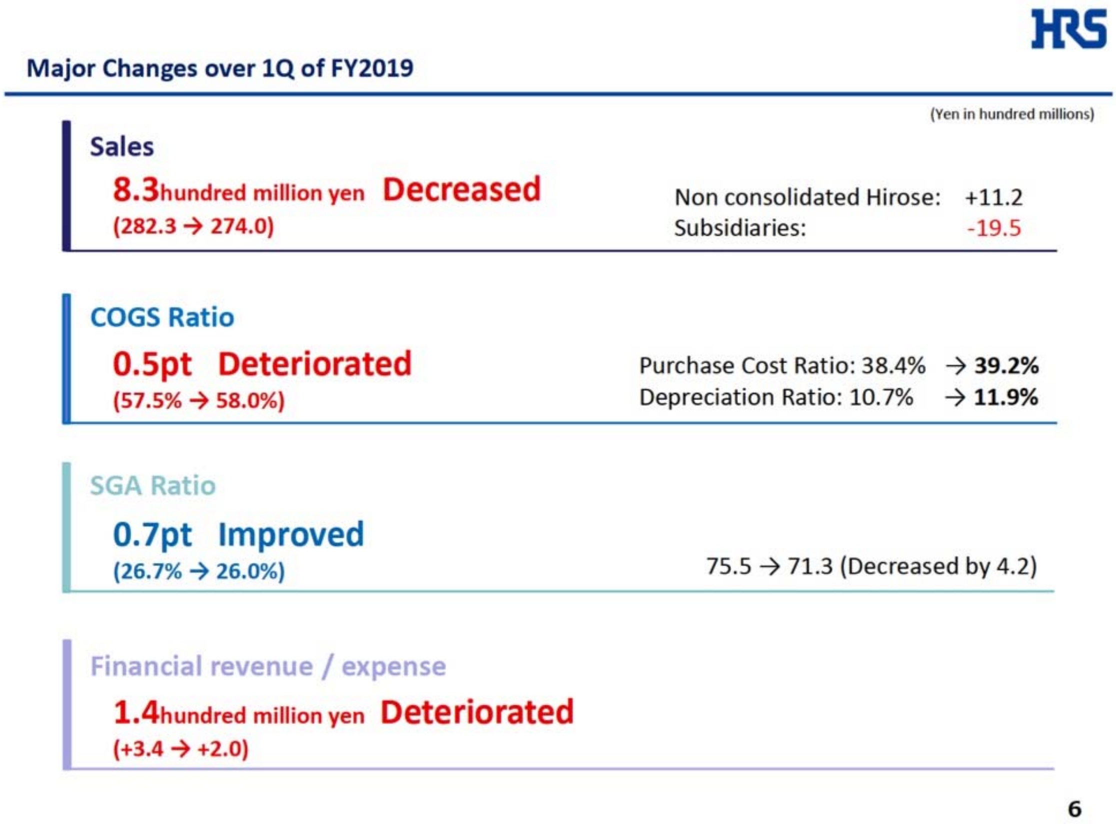
Next, please turn to page five. We summarized the results in a chart.

As explained earlier, sales in Q1 were JPY27.4 billion, down JPY830 million, or 3%, YoY. Operating profit was JPY5.9 billion, and the operating margin was 21.5%. Operating profit was up JPY560 million, or 10.4%, YoY.

Earnings before income tax came to JPY6.09 billion, and net profit was JPY4.42 billion. As we will cover later when going over the balance sheet, total assets stood at JPY343.64 billion, with an equity ratio of 89.4 % and EPS of JPY121.78.

As for the foreign exchange rate in Q1, the JPY strengthened against the USD, EUR, and KRW compared to the previous year, with the exchange rate at JPY107.62 to the US dollar, JPY118.48 to the euro, and JPY8.83 to 100 Korean won.



Next, please turn to page six. This chart highlights the major changes from the previous year.

As explained earlier, sales were down JPY830 million from the previous year. This broke down as an increase of JPY1.12 billion at the parent, but a decrease of JPY1.95 billion at subsidiaries. The CoGS ratio deteriorated 0.5 percentage points, mainly attributable to an uptick in the depreciation ratio. In a sense, this deterioration is in line with our plan, because we are carrying out planned investments.

The SG&A ratio improved 0.7 percentage points. As for the amount of SG&A expenses, the amount declined by JPY420 million compared to the previous year. This was chiefly the result of a decline in expenses stemming from activity restrictions caused by COVID-19 during Q1, so calling this the result of cost-reduction efforts would be inaccurate. Accordingly, the amount of expenses ended up lower.

As for financial revenue and expenses, we saw a JPY140 million deterioration, in part due to the impact of foreign exchange rates.

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%***

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Next, please see page seven. This is an analysis of the factors behind the change in sales and profits. We have analyzed the factors affecting results in Q1 compared to Q1 in FY2019.

In terms of the exchange rate, the yen strengthened against other currencies, as explained earlier. As a result, the exchange rate negatively impacted both sales and profits. The exchange rate had a negative impact of JPY630 million on sales, JPY360 million on operating profit, and JPY420 million on earnings before income tax. An increase in depreciation costs pushed down profits by JPY290 million.

A decrease in personnel expenses, including SG&A expenses, boosted profits by JPY280 million. In terms of one-off factors, in Q1 of the previous year, we booked gains on the sale of land amounting to JPY840 million. In addition, as explained earlier, we booked gains on insurance income during Q1 of this year, amounting to JPY1.5 billion.

Also, there was a decrease in travel and overseas travel expenses, amounting to JPY250 million, as we were unable to make business trips.

Netting all of these factors, sales were down JPY830 million, operating profit was up JPY560 million, and earnings before income tax was up JPY420 million.

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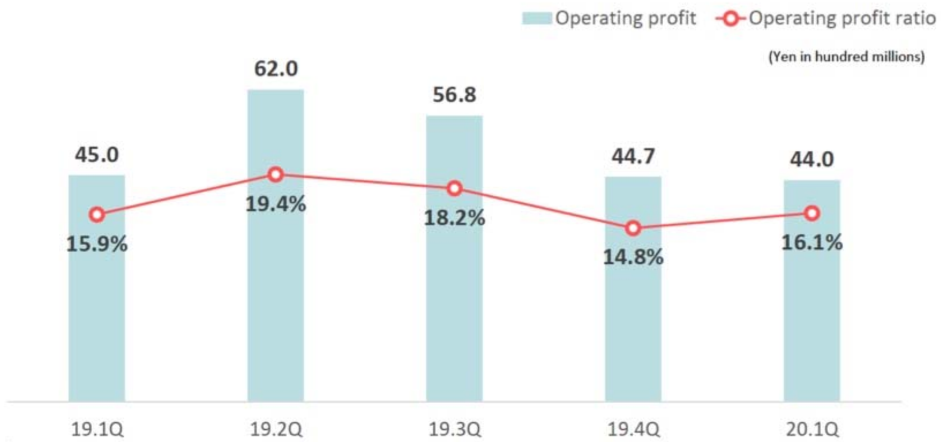
Changes in operating profit excluding temporary factors (FY2019.1Q-FY2020.1Q)



(Yen in hundred millions)	19.1Q	19.2Q	19.3Q	19.4Q	20.1Q
Operating Profit (Financial Settlement)	53.4	62.0	46.7	41.5	59.0
	Gain on sale of land −8.4		Expense for flood damages in Koriyama + 10.1	Expense for flood damages in Koriyama + 3.2	Insurance money for flood damages in Koriyama −15.0
Operating Profit excluding temporary factors	45.0	62.0	56.8	44.7	44.0

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Next, please turn to page eight. This is a supplementary material that shows operating profit, excluding temporary factors.

In Q1 of FY2019, we booked gains from the sale of land, as explained earlier. So, the underlying operating profit was JPY4.5 billion. In Q1 of FY2020, we booked insurance income for the Koriyama flood damages, as explained earlier. So, excluding this factor, operating profit was JPY4.4 billion. Excluding seasonal factors, no major changes have emerged. I believe you can see from the result that the business itself is in more or less the same shape.

HRS

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**	

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Next, please look at page nine. This is the balance sheet.

Although trade and other receivables have declined, this was attributable to a decrease in receivables stemming from a decline in accounts receivable. Even though inventories have increased, this is partly in accordance with our plan to accumulate inventory at overseas sales companies. In addition to that, we have been strengthening the production of some products, resulting in an increase in inventories.

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	

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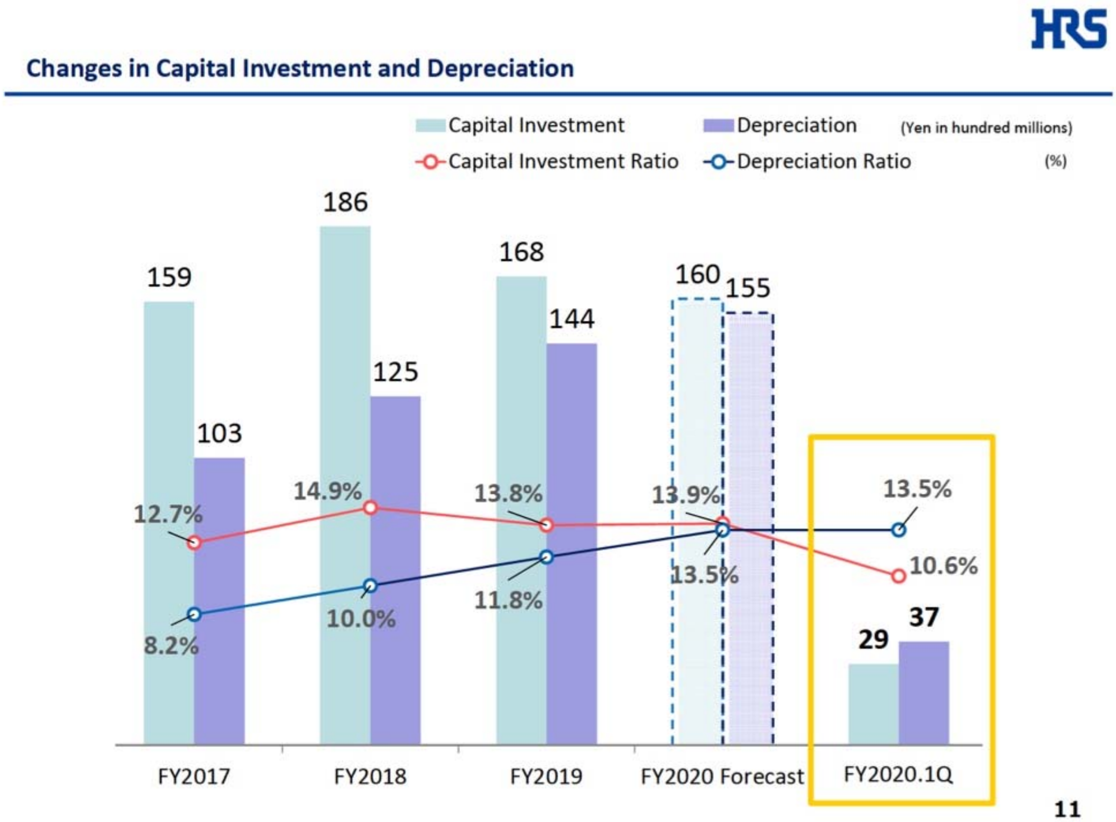
Next, please look at page 10. This page covers the liabilities and shareholders' equity.

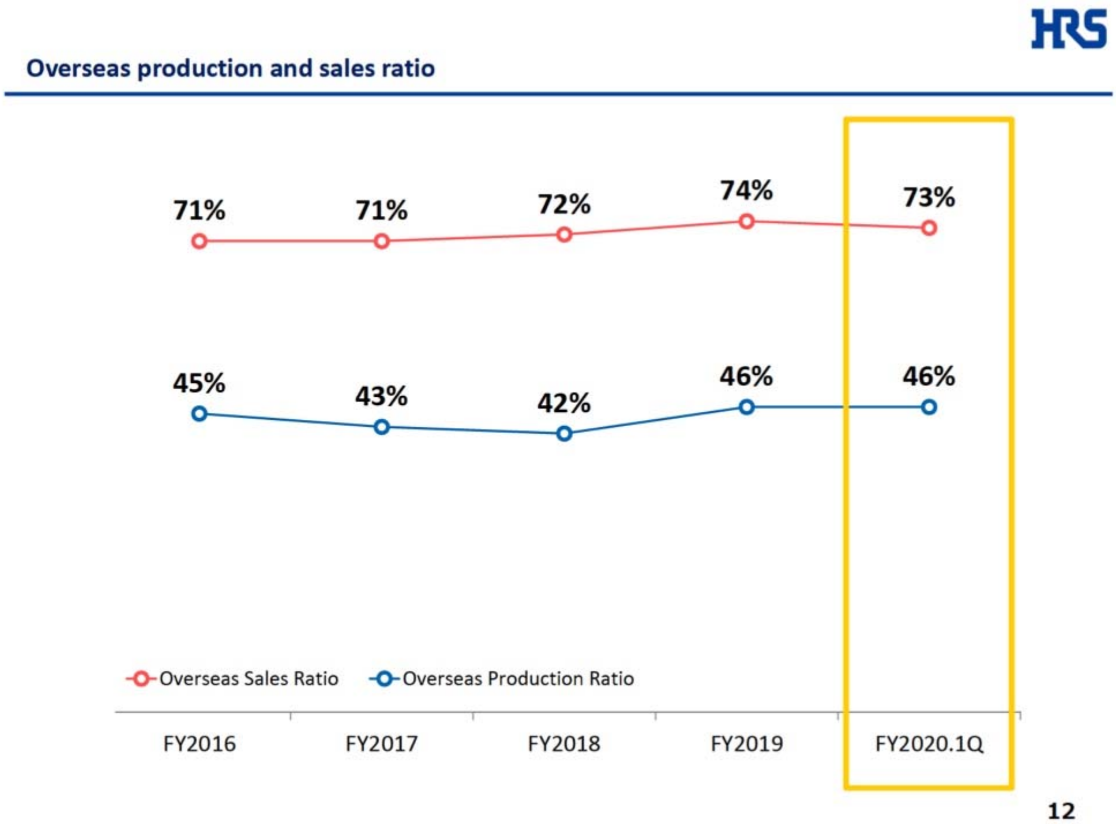
As for treasury stocks, we cancelled 205,000 shares in June, and this resulted in the difference of JPY2.38 billion.



Next, please look at page 11. This page describes the changes in capital investment and depreciation.

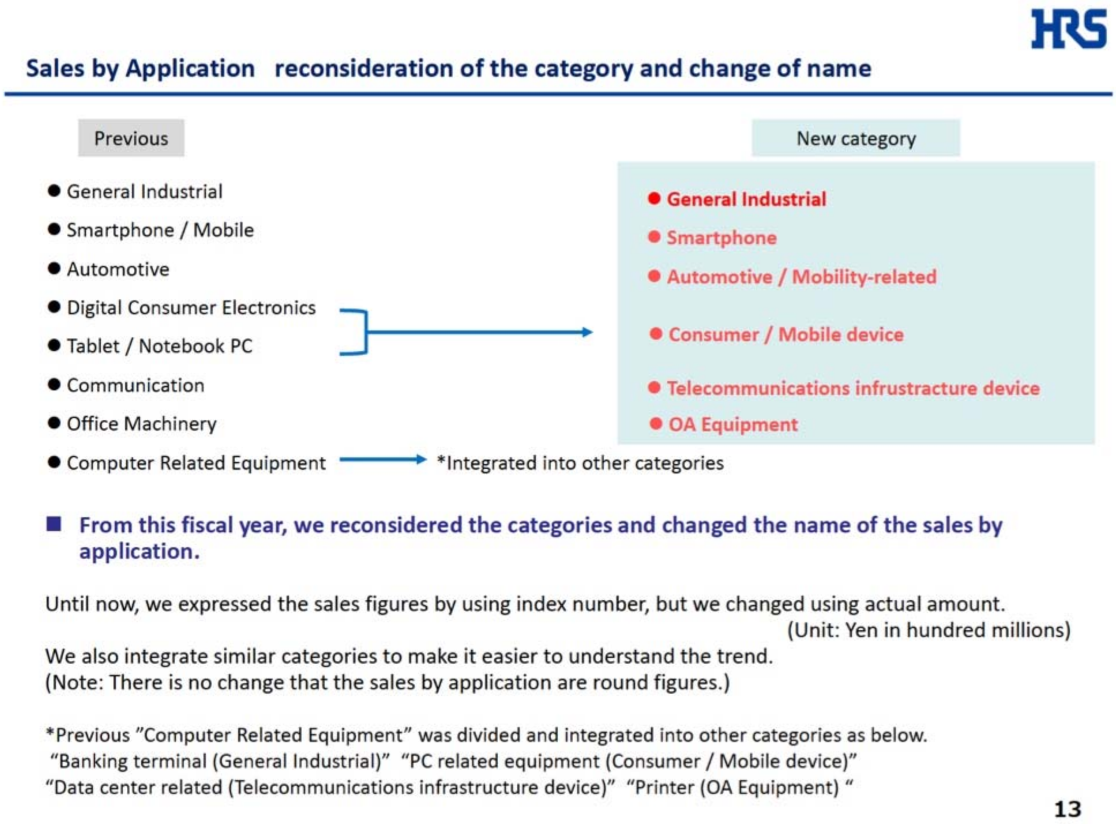
In Q1, capital investment amounted to JPY2.9 billion and depreciation came to JPY3.7 billion. Although the depreciation amount was in line with the plan, we felt capital investment was slightly weak at the operational level, most likely attributable to the shift to working from home in April and May.

Also, although we haven't described this here, R&D expenses totaled JPY2.5 billion in Q1. In our understanding, R&D expenses for Q1 came in below the initial plan. But, for now, we have left the annual forecast for R&D expenses of JPY12 billion unchanged.



Next, please look at page 12. This page describes the overseas production and sales ratio.

The overseas sales ratio dropped by one percentage point. We believe this reflects the decrease in the composition ratio of sales for smartphones.



Next, please see page 13. The material from here explains sales by application. In the beginning, Fukumoto mentioned that we had reviewed the structure and notation of the materials.

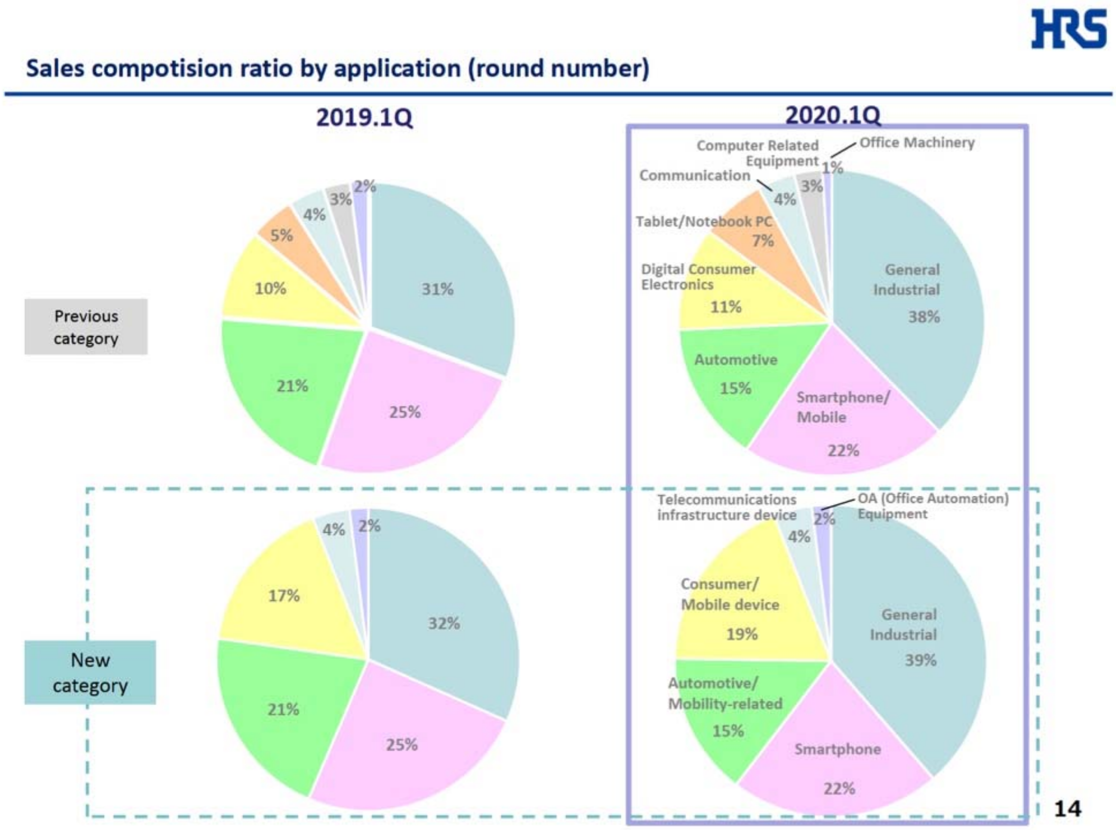
In the past, we notified the sales composition ratio and growth rates by application. However, some of these parts were somewhat difficult to understand. As such, we have revised the materials this time.

First, we switched to displaying the actual amount. We now indicate the amount in units of hundreds of millions of yen. We have also prepared the materials for the previous fiscal year in the supplementary materials, which we will go over later.

In addition, we integrated some similar categories. Previously, we had separate categories for digital consumer electronics and tablet/notebook PCs. These applications, in terms of our products, mainly use micro connectors, meaning that the products used are the same. So, we integrated both categories and changed the name to consumer/mobile device.

Also, we used to have a category for computer-related equipment. This category continued to account for around 3% of total sales. But we integrated it into other categories. The reason is that the products used in computer-related equipment had become so diverse, that the category had lost features that would make it stand apart from others. We also separated the consumer-related and industrial machinery-related product applications, and we integrated them into consumer, telecommunications infrastructure, industrial machinery, and OA equipment, respectively.

If there's anything unclear about these categorizations, you can either ask us questions today or at a later date, and we will answer those questions.



Next, please look at page 14. This page shows the sales composition ratio by application, which we usually show. However, this time, we indicate the composition ratio according to both the previous and new categorizations. At first glance, there seems to be no significant change. We believe the decision did not lead to any major changes.

If you look at the composition ratio for consumer/mobile device and compare that with the sum of digital consumer electronics and table/notebook PC based on the previous categorization, then the composition ratio only changed by one or two percentage points. Thus, we think the composition ratio is roughly similar.

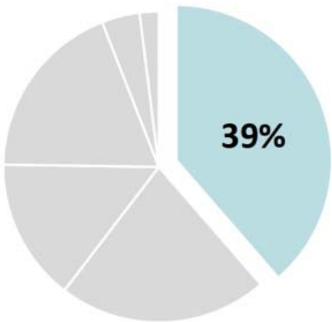
Changes in the composition ratio that stand out in this quarter are an increase in the ratio for general industrial and a decrease in the ratio for automotive. We prepared the trends by each equipment on the following pages, so we will explain them there.

Sales by Application_General Industrial

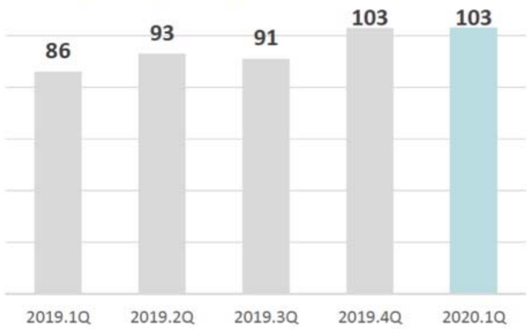
(Yen in hundred millions)

	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

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Now, please go to page 15. We showed the trends by each application. First up is the general industrial application.

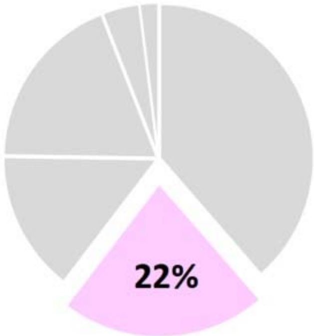
General industrial applications accounted for the largest portion of sales at 39%. The sales amounted to JPY10.3 billion, on par with the previous quarter, indicating that growth was flat QoQ. This was in part due to lump-sum orders from some clients. We believe that the outlook for a recovery going forward remains unclear.

Sales by Application_Smartphone

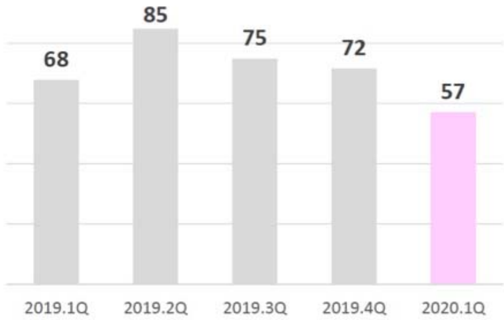
(Yen in hundred millions)

	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.

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Next, please turn to page 16. This page shows the trends for smartphone and mobile phone applications.

Sales in Q1 amounted to JPY5.7 billion, down 16% YoY, and down 21% QoQ. In a sense, this is attributable to the Q4 of FY2019, where sales didn’t fall that much. In other words, in 2020, we didn’t see the usual seasonality that we saw in past years. Therefore, if you look at the average of the sum of Q4 and Q1 sales and compare that to the comparable period in past years, you can see that the overall sales volume hasn’t changed so much.

Thus, in our view, the result for Q1 is partly due to inventory adjustments.

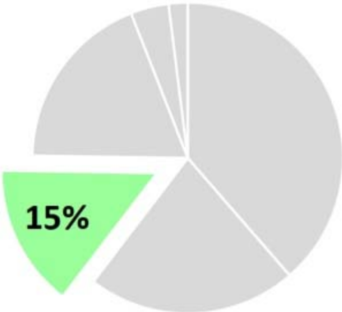
Given the expectations for new smartphone models compatible with 5G, we think that sales will pick up again from Q1 to Q2, and sales will trend at elevated levels going forward.

Sales by Application_Automotive/Mobility-related

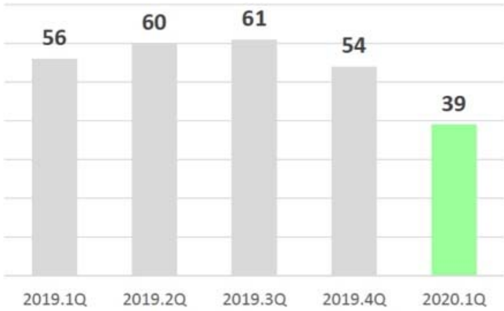
(Yen in hundred millions)

	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).

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Next, please see page 17. This page shows the trends for automotive/mobility-related applications.

Sales dropped significantly for this application, down 30% YoY and 28% QoQ.

For automotive applications, the downtrend seen in the previous quarter has continued into the current quarter, and we think this is the most important point to note. The composition ratio used to be around 20%, but that has fallen all the way down to 15%. In a sense, we are in the stage of waiting for a recovery.

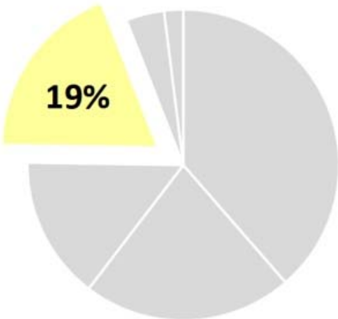
HRS

Sales by Application_Consumer/Mobile Equipment

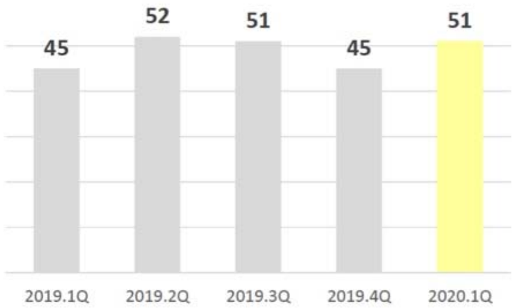
(Yen in hundred millions)

	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.

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Next, please go to page 18. This page describes the trends for consumer/mobile device applications.

Sales in this category were solid, up 13% YoY and 13% QoQ.

We get the impression that there has been a temporary increase in demand for personal compact consumer equipment, or so-called gadgets, as a result of remote work taking hold as a countermeasure against COVID-19's spread. This is a category in which we expect relatively steady growth this fiscal year.

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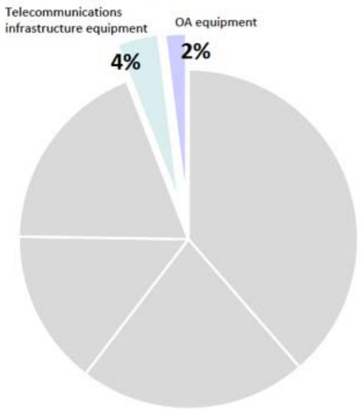
Sales by Application_Telecommunications infrastructure equipment / OA equipment

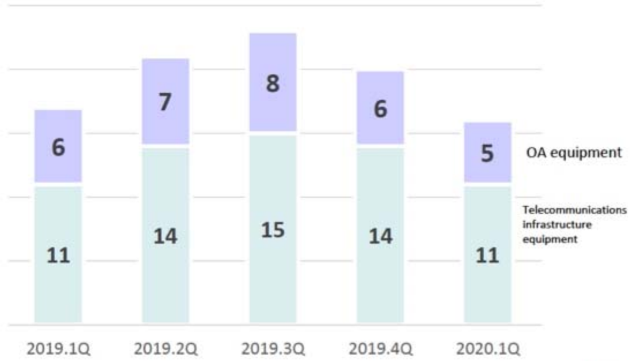
(Yen in hundred millions)

	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**



● **Changes in quarterly sales**



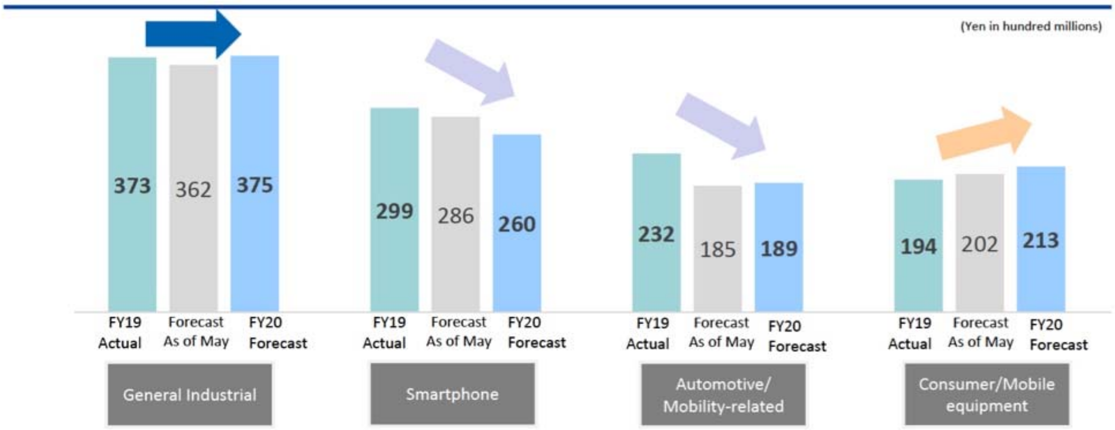
19

Next, please turn to page 19. These are the categories accounting for the remaining 6% of total sales. Sales ratios for the telecommunications infrastructure equipment and OA equipment categories would bring the total sales by category to 100%.

For telecommunications infrastructure equipment applications, sales were flat YoY and down 21% QoQ. In fact, as we will explain later, a large portion of the production of products for telecommunications infrastructure equipment takes place at our Malaysia plant. Sales have dropped slightly from the previous quarter due to production restrictions at the Malaysia plant, but we are currently in the process of recovery. Thus, the result here is in part due to temporary factors.

As for OA equipment, which includes copy machines and printers, sales were down 17% YoY and QoQ, but the absolute amount of sales is small, so the change in that amount is also insignificant.

Annual sales forecast by applications【Updated】



〔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. 〔-3% → +1%〕
- Smartphone: Due to the impact of sluggish consumer spending affected by COVID-19, the forecast was revised down. 〔-4% → -13%〕
- Automotive / Mobility-related: The downward trend of this fiscal year is not changed, but we raised decreasing rate slightly. 〔-20% → -18%〕
- 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. 〔+4% → +10%〕

20

Now, please look at page 20. We provided an update to our annual forecast by applications.

In the beginning, we stated that there had been no changes to our annual earnings forecasts. However, we stated at the time of the initial guidance in May that we may update our forecasts by applications if necessary. Thus, we will update you on the fine adjustments made in comparison to our forecasts as of May. There hasn't been a change in the total amount as a result of these adjustments.

First, for general industrial applications, we slightly increased our forecast over the full year. Although we wouldn't call this a recovery trend, it means that we expect full-year sales to be around flat or slight increase from the previous year. Compared to the negative 3% forecast in May, we now forecast sales to grow 1%.

As for smartphone applications, we stated in May that we forecast negative 4%, but we revised down our sales forecast to negative 13%, reflecting the impact of sluggish demand among end-users.

As for automotive applications, the downtrend is unchanged over the full year, but we think that downtrend will slightly slow down, and we have thus changed our forecast from negative 20% to negative 18%.

In the past, we only described the growth rate trends by applications for general industrial, smartphone, and automotive. Starting from this quarter, we are also covering the trend for consumer/mobile equipment. As a result, we are now covering 90% of the total sales.

For consumer-related applications, we mentioned verbally in May that we expect a slight increase, but we now expect sales to increase by around 10%. We changed the forecast for growth from 4% to 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**				
Consolidated Dividend Payout Ratio	—	57.1%	—	**67.0%**				

	FY2019 Actual	FY2020 1Q Actual	FY2020 As of May, 2020
1US$	108.74 yen	107.62 yen	107.0 yen
1€	120.82 yen	118.48 yen	117.0 yen
100won	9.21 yen	8.83 yen	8.80 yen

21

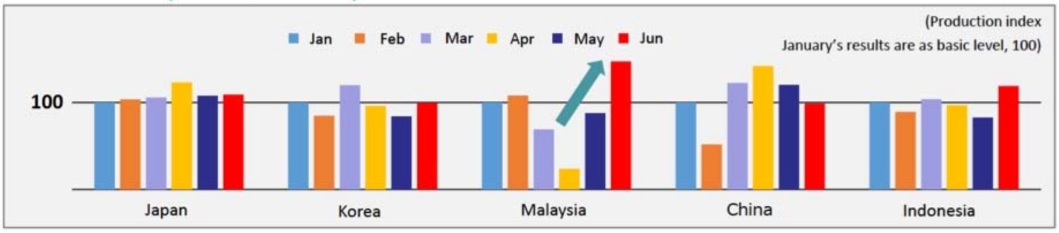
Next, please go to page 21. As stated earlier, we have not changed our earnings forecast from the May forecast.

We target sales of JPY50 billion in 1H and JPY115 billion over the full year. We have also made no changes to our profit forecasts. Our annual dividend forecast of JPY240 per share is also unchanged.

HRS

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.

22

Next, please turn to page 22. We have described the impact of COVID-19 on the next two slides.

First, I will explain the situation of our production activity. In May, we mentioned that the production level at our Malaysia plant had dropped due to the temporary suspension of operations. We updated the information given the recovery in production activities in May and June.

This recovery is not just limited to June. We think the recovery in production will take place at an elevated level over the next few months.

When looking at the production activity in each country, there were large restrictions in China during February and in Malaysia during March and April. In other areas, there was some impact in Indonesia and Korea, but production has been continued while taking measures against COVID-19's spread.

We have also listed three other impacts.

As for logistics restrictions, we have been impacted by the price increases in overseas transportation costs.

Due to the reduced number of flights, we have been impacted by the price increases in transportation costs. In a sense, this impact can be considered to be temporary. But given that the impact of COVID-19 is still persisting, we will probably continue to see an impact for some time. However, the price levels have slightly moderated compared to their peak period.

As for R&D, some development projects were delayed because employees were working from home for two months, as explained earlier, but R&D activities are now recovering.

COVID-19 (2) Efforts to continue safety business

Promoted working from home	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.
Promoted using online tools	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.
Distributed a handbook about COVID-19	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.
Daily management, warning and distributing face masks	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.

23

Next, please see page 23. As for business continuity measures, we have four pillars. I will explain the two measures on the top first, and then the other two measures on the bottom after that.

First, I'll talk about how much we were able to ensure business continuity while mainly operating based on remote work, with employees working from home using online tools.

Naturally, there are limitations that we faced, such as being unable to conduct face-to-face sales activities and restrictions on manufacturing and development activities. However, in terms of the infrastructure for remote work, it's not that we suddenly started moving our system to the cloud. We had already been promoting this since the past. So, in a sense, we were able to minimize the downtime and made a shift effectively.

We had the impression that the usage of these online tools wasn't actively or fully implemented before COVID-19 spurred the shift to remote work. Initially, we adopted online methods, such as online meetings, as a matter of course, because there was no other option.

But, once we started doing this, we found out that these tools are quite useful. Thus, we have adopted these tools not only for this briefing meeting but on other occasions as well, including recruitment interviews and board of directors' meetings. These video conferences have been proliferated widely for many internal meetings. In addition, we are also conducting online seminars with external parties, thus broadening the scope of usage even further.

We've also started promoting the business usage of an internal social media platform in addition to using online tools for conferences. In the past, the people who used these tools were limited. But now their usage has expanded to all employees, and they have taken hold in the Company.

Next, I will explain the bottom two items. We distributed a handbook about COVID-19, and we also conducted daily management, issued warnings, and distributed face masks. We have thus provided care to our employees and other relevant parties.

We created a handbook, including precautions to be taken and distributed it to every employee. By having this handbook on hand, employees are able to check what kind of actions they should take during emergencies. These warnings also include recommended behavior on a daily basis. Even after we entered the reopening stage of the economy in July, we have updated this handbook on an ongoing basis.

In April, when there was a shortage of masks and employees struggled to obtain them on their own, we purchased masks in bulk and thoroughly distributed them to the places in need, including subsidiaries. We have also kept a full stock of disinfectants throughout March, April, and May. And we are still continuing these measures.

HRS

<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℃ 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.

24

Next, please turn to page 24. As explained in the beginning, this page is about receiving the JPCA Award.

We have a floating board-to-board connector called the FX26 Series used in automotive applications. We received the JPCA Incentive Award from the Japan Printed Circuit Association for the FX26 Series.

The JPCA selection committee comprising an expert panel selected FX26 Series, citing the introduction of a floating structure to overcome stress concentration, which occurred when replacing the internal connection of automotive powertrains with a board-to-board connection. FX26 Series also received positive reviews for its heat resistance and high vibration resistance features.

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**	

26

Finally, I will go over the supplementary materials. As explained earlier, we described sales by application. Although these are rounded numbers, we have indicated the trends in actual figures, so we hope you will use this for reference.

This concludes my explanation based on the presentation materials.

Disclaimer

In this material, there are descriptions based on current estimation by Hirose Electric.

Hirose cautions you that a number of important risks, uncertainties and others could cause actual results to differ materially from those discussed in the *forward-looking statements. Thank you for your understanding.

*Forward-looking statements include, but are not limited to, those statements using words such as “believe,” “expect,” “plans,” “strategy,” “prospects,” “forecast,” “estimate,” “project,” “anticipate,” “aim,” “may” or “might” and words of similar meaning in connection with a discussion of future operations, financial performance, events or conditions. These statements are based on management’s assumptions and beliefs in light of the information currently available to it.