

# Hirose Electric Co., Ltd.

## Financial Results Briefing for the Third Quarter of the Fiscal Year Ending March 31, 2026 Q&A Summary

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### Q1

**We would like to know the actual BB ratio by segment for the third quarter, as well as the outlook for the fourth quarter.**

#### A1

The BB ratio in Q3 was 1.1 for general industrial segment, 0.9 for smartphone segment, just under 1 for automotive and consumer segments, and 1.4 for telecommunication infrastructure segment. As for the outlook for Q4, we expect the strong demand in the industrial equipment segment to continue.

### Q2

**Regarding the general industrial segment, we would like to understand the details behind its shift from recovery to renewed growth.**

#### A2

The general industrial segment was extremely difficult to forecast at the beginning of the fiscal year, but market trends indicate that a full-scale recovery has been progressing since entering 2026. Throughout the fiscal period, the recovery became visible in the numbers, and our forecasts turned increasingly bullish, with orders coming in above initial expectations. The uptrend in both orders and sales was driven by the FA and industrial machinery-related applications as a sub-segment. Demand increased for both major direct customers and those served through distributors, with distributor-led growth not only in Japan and China but also in Europe and North America.

### Q3

**We would like to understand the proportion of AI-related business within the general industrial segment.**

#### A3

We are unable to clearly determine whether the end products incorporating modules that use our connectors are actually for AI-related applications. Therefore, we cannot quantitatively identify the composition ratio or other specific breakdowns.

#### **Q4**

**Regarding the telecommunication infrastructure market, could you explain what types of opportunities you are capturing and how your business in this segment is growing? We would also like to understand the broader market expansion trends and the strengths that are driving your performance.**

A 4

The communications-related market is expanding at a rapid pace, and we recognize that unless we make capital investments at the appropriate timing, we will not be able to fully meet customer needs. While we are currently supplementing supply in part due to industry-wide capacity shortages, we have already prepared the next-generation and even the generation beyond that, which will be required in the future. We intend to respond proactively to customer requests for support.

#### **Q5**

**Regarding AI servers, we would like to learn more about the recent changes in market and customer trends, as well as developments in related technologies.**

A 5

Shipments of high-end products for routers and switches have been increasing. In the server segment, while capacity constraints are tightening across the industry, we have been able to meet customer needs as a supplier capable of delivering stable supply. In addition to our traditional efforts as a second vendor, we are also advancing proposals for new products with a view to future demand. By driving both of these initiatives in parallel, we aim to expand our market presence.

#### **Q6**

**What was the impact on profits in the third quarter from higher material costs, including the surge in gold prices? In addition, how do you plan to recover these cost increases?**

A 6

On a quarter-on-quarter basis, the negative impact amounts to approximately ¥500–600 million. In the revision to our full-year forecast, we have incorporated ¥1.0–1.5 billion of profit decline attributable to higher material costs. We view price increases to offset cost inflation as an ongoing initiative. Although there is a time lag, we have already begun passing these costs through to selling prices during the current fiscal year. We are implementing price-increase measures broadly across both direct sales and distributor channels. In addition, we are proactively pursuing cost-reduction initiatives, including improving utilization rates, increasing the standardization of production equipment, and implementing gold-saving measures in response to soaring gold prices.

## **Q7**

**You mentioned that the negative impact on profits from higher raw material prices this fiscal year is estimated at ¥6.0–6.5 billion. Given that the recovery through price pass-through will take place over multiple years, to what extent do you expect improvement next fiscal year—approximately what proportion can be recovered?**

A7

In terms of our approach, price increases are one element, and the other is the introduction of new products that refresh the value we provide. These two components together form the basis for recovering cost increases. While we are still refining our plan for the next fiscal year and are not yet in a position to disclose details, we expect that the price-increase component will target recovering roughly half of the cost increases.

## **Q8**

**Do you have mechanisms in place for price adjustments in response to cost fluctuations—such as periodic reviews or systems that automatically adjust prices up or down based on specific indices?**

A8

We are considering updates to our pricing framework in certain customer contracts, including mechanisms such as periodic price reviews and the application of sliding prices that adjust in line with market fluctuations.

## **Q9**

**How do you view the potential impact of rising memory prices—including possible declines in demand, effects on production, and other indirect influences—as you look ahead to the next fiscal year?**

A9

At this point, we have not observed any direct impact on orders or sales. While there is a possibility that an effect could emerge in the future, the level of urgency has not increased at present. We currently view ourselves as being in a phase where our priority is to reliably fulfill new orders.

## **Q10**

**We would like to ask about your approach to cash allocation. You executed a ¥15 billion share buyback at the beginning of the fiscal year and are also conducting an additional repurchase during the year. At the same time, you have initiatives such as capital investments for AI server-related demand and potential M&A opportunities. How do you plan to balance business and capital investments with shareholder returns going forward? Has anything changed from your previous approach, and what is your current thinking?**

A 10

Our fundamental stance remains unchanged: we believe that steady investment across all business segments is essential for driving medium- to long-term growth. Accordingly, we recognize that we are currently in a phase where cash should be allocated with priority to reinvestment. Any specific changes in our capital allocation approach will be examined in the plans for the next fiscal year and beyond. As for shareholder returns, this does not mean we intend to discontinue share buyback; we plan to continue implementing them going forward.

**Q11**

**With a relatively high dividend payout ratio, active share buybacks, and consequently a high total shareholder return yield—while also achieving steady earnings growth—how do you view the relationship between business growth and capital allocation?**

A 11

We recognize that our analysis of the target markets has been somewhat limited in scope up to now, and that we have lacked focus on the perspective of making more effective use of capital through reinvestment for future growth. Because we have historically maintained high profit margins, it is possible that the fields we closely monitored have been somewhat narrow. We have already launched several projects and are now conducting deeper examinations of areas that we have not sufficiently focused on in the past. We also intend to re-evaluate markets and application domains that are likely to emerge as semiconductors and AI continue to evolve, and to broaden the range of fields that could become targets for reinvestment. As these initiatives take shape, the direction of the next medium-term management plan will inevitably evolve. Regarding shareholder returns, our aim is not to limit ourselves to share buybacks or high dividends alone. Rather, we seek to achieve optimal capital allocation by appropriately allocating funds to reinvestment and capital expenditures that will support future growth, while ensuring that shareholders understand the rationale behind these decisions. Although we are not yet in a position to present specific measures, we are currently reviewing our approach based on these fundamental principles.

**Q12**

**Although you are making progress in correcting prices and passing on cost increases, rising labor expenses and higher material costs are simultaneously exerting downward pressure on profits. Under these circumstances, what level of operating profit margin do you consider appropriate? In other words, do you view around 20% as the benchmark, or do you aim for around 25%? Please explain how you think about what constitutes an appropriate margin.**

A 12

Basically, our stance remains unchanged—we continue to aim to secure a minimum operating profit margin of 20%. On the other hand, with regard to targeting a 25% margin over the medium term, we believe it is important to consider how we position reinvestment for future sales and profit growth. To

ensure that we do not miss growth opportunities, we need to carefully assess what level of margin is appropriate. For now, we would prefer to limit our explanation to this general tone.

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