



HIROSE ELECTRIC CO., LTD.

Q1 Financial Results Briefing for the Fiscal Year Ending March 2020

August 5, 2019

Event Summary

[Company Name]	HIROSE ELECTRIC CO., LTD.
[Event Type]	Earnings Announcement
[Event Name]	Q1 Financial Results Briefing for the Fiscal Year Ending March 2020
[Fiscal Period]	FY2019 1Q
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[Time]	10:30 – 11:26 (Total: 56 minutes, Presentation: 32 minutes, Q&A: 24 minutes)
[Venue]	Sapia Tower, Tokyo Station Conference Center, 6F 602 1-7-12 Marunouchi, Chiyoda-ku Tokyo 100-0005
[Venue Size]	309 m ²
[Participants]	103
[Number of Speakers]	2 Hiroshi Fukumoto Corporate Board Director, Group President, Administration Group Hideo Suzaki Manager, IR Office, Administration Group

Presentation

Suzaki: Good morning. We would like to thank you for visiting our financial results briefing today. We will hold a financial results briefing for the first quarter of Hirose Electric. I am Suzaki of the IR Office and will lead the briefing today. Thank you very much.

First, please confirm the materials we delivered at the reception. Today's briefing consists of two parts: materials used today for the financial results briefing and the financial results summary that was disclosed on the Tokyo Stock Exchange on Friday last week. Please confirm.

Today, I will explain our financial results for about 20 minutes. After that, Mr. Fukumoto, Corporate Board Director, Group President of Administration Group, will explain the recent trends and our efforts for the current fiscal year. The remainder will be the time for a question and answer session for about 15 to 20 minutes. Closing is scheduled at 11:30, so we would like to ask for your cooperation. Then, we will begin to give explanations.

Business Situation of FY2019.1Q (Apr,2019 – Jun, 2019)



FY2019.1Q (Apr - Jun)	Order 300.8 hundred million yen (Year-on-Year -8.5%) Sales 282.3 hundred million yen (Year-on-Year -0.8%) Operating profit 53.4 hundred million yen ※Profit Ratio 18.9 % (Year-on-Year +6.5%)
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The performance remained stagnant widely because of the deterioration of economic confidence, Chinese economic slowdown and poor sales in automotive (Europe, America and China, etc) affected by US-China trade friction.

Industrial market

The sales for general industrial have been declining since the second half of FY2018 and resulted -22% Year-on-Year.

Smartphone

The sales for smartphone market resulted +29% Year-on-Year because the demand for Chinese market increase came earlier than usual.

Automotive

Due to downside of automotive sales, the sales of some our existing products decreased. The sales for automotive market was -7% over FY18.4Q (2019.1Q/2018.4Q) and +3% over FY18.1Q.

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First, we will review our business in the first quarter of the current fiscal year. Orders received amounted to 30.08 billion yen, down 8.5% from the same quarter of the previous fiscal year, sales were 28.23 billion yen, down 0.8% from the same period of the previous fiscal year, operating profit was 5.34 billion yen. The profit margin was 18.9%, a year-on-year increase of 6.5%.

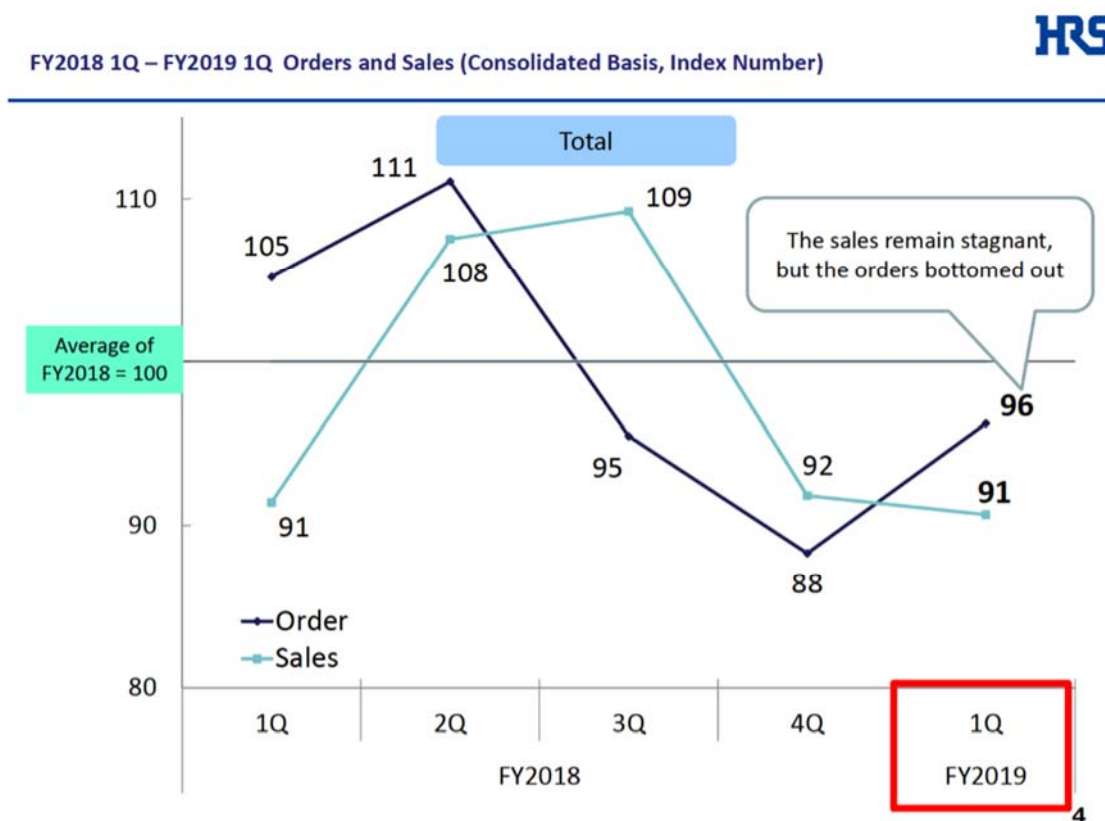
In terms of overall business conditions, there was a sense of stagnation in a wide range of areas, such as deterioration in business confidence due to trade conflicts between the United States and China, a slowdown

in the Chinese economy. Also, there was slump in automobile sales, mainly in Europe, the United States, and China.

By segment, sales for the general industrial market continued to decline from the second half of the previous fiscal year, and declined in the first quarter of this fiscal year. This resulted in a year-on-year decline of 22%. We will explain in more detail later.

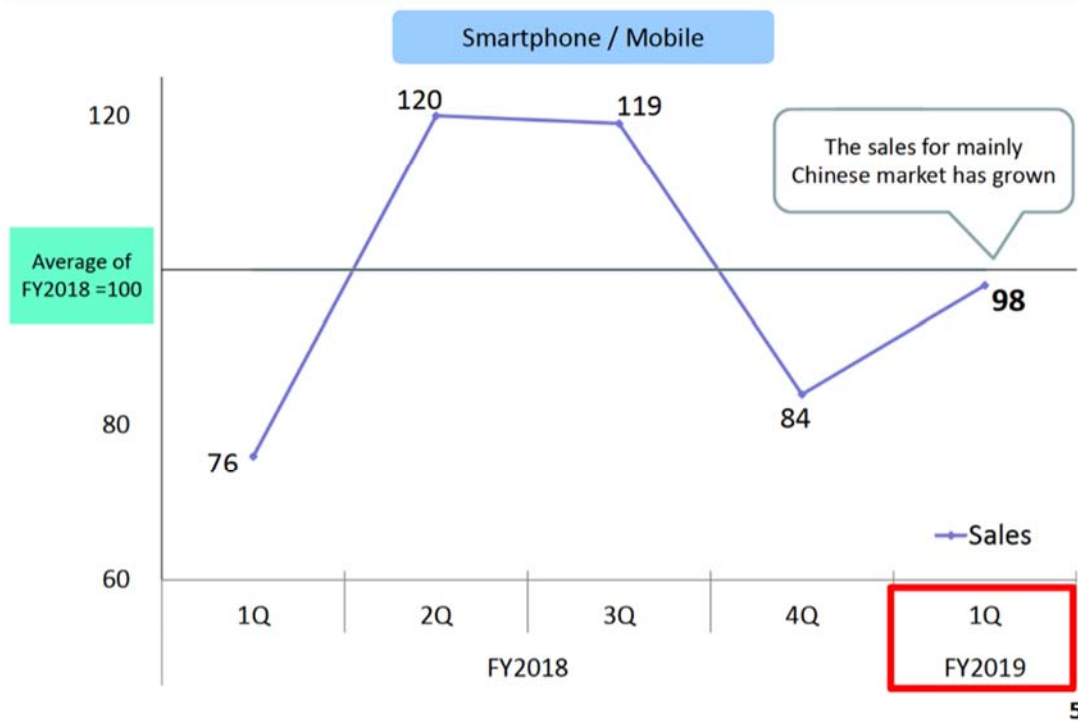
Sales for smartphones increased 29% year on year, due in part to the effects of an early increase in demand for smartphones in China and elsewhere compared to the usual year.

Sales in automotive markets were also affected by sluggish sales worldwide, and partly due to a decline in sales of some existing products. There was a decline of 7% compared with the fourth quarter of FY2018, and a slight increase of 3% compared with the same period of the previous fiscal year.



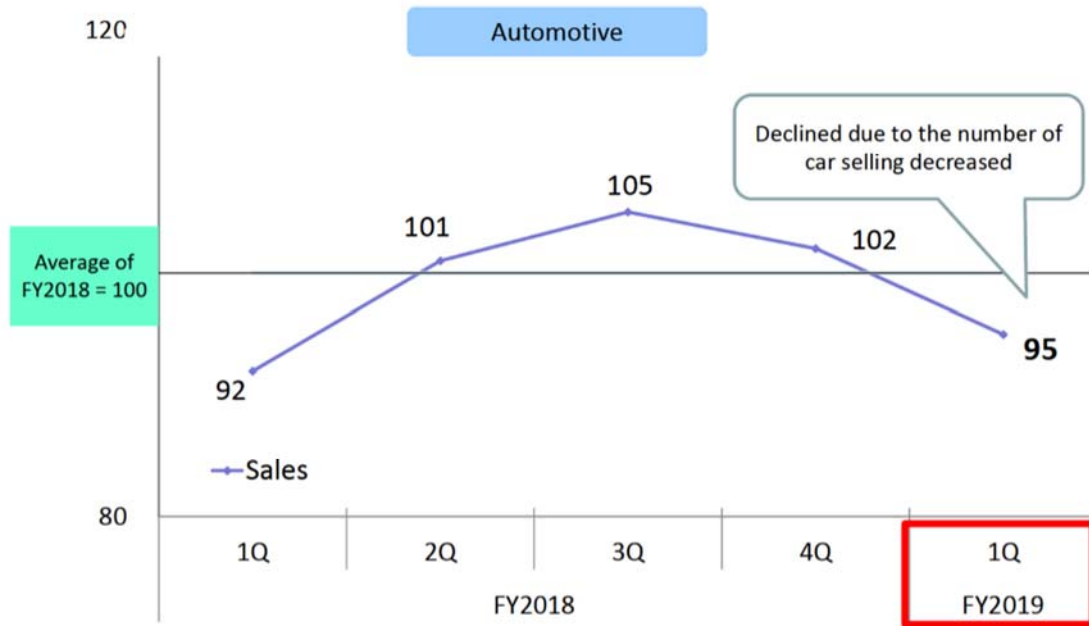
Please refer to the graph above. This graph shows the average of FY2018 being set as 100. As a whole, although sales are likely to remain sluggish, orders have bottomed out and increased in the first quarter compared to the fourth quarter of the previous fiscal year.

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



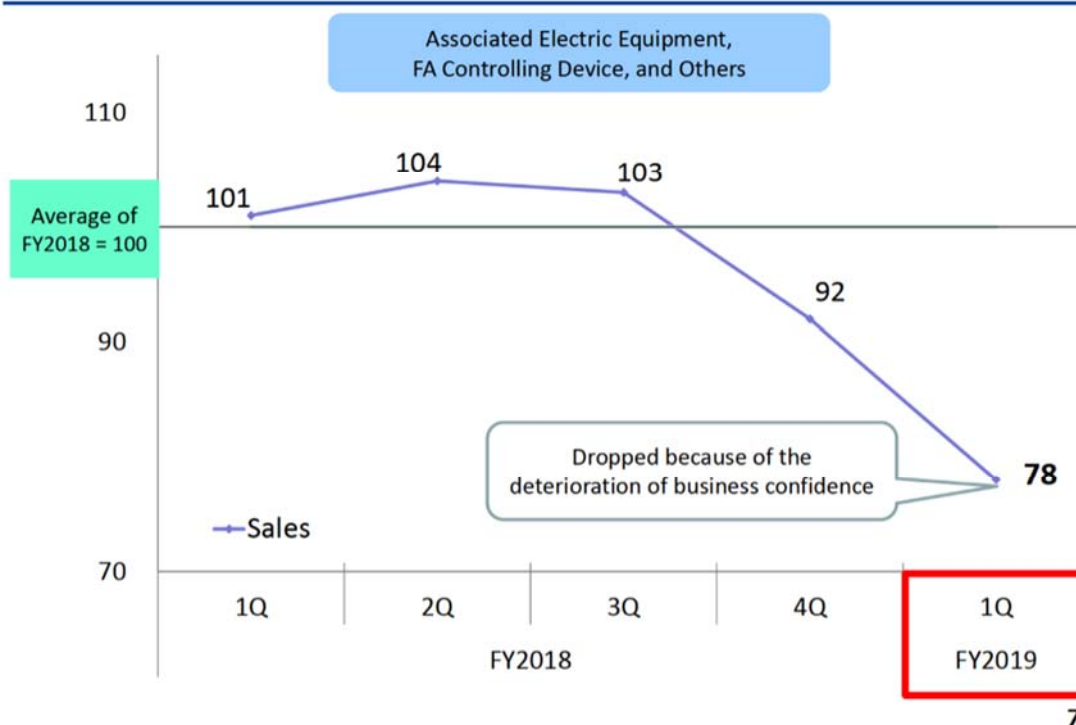
By segment. Sales for smartphones increased due to an increase in sales mainly to Chinese market. Although it was slightly short of the previous year's average, sales are growing compared with the first quarter of the previous year, and have become positive compared with the fourth quarter of the previous year.

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



Automotive. The decline in automotive sales volume resulted in a slight decline in sales. Although the growth of new products was in line with our plans to some extent, the decline in sales of existing products in the market environment had a slight impact. We do not believe that this trend will move downward from now on, and we believe that the upward trend will also emerge toward.

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



General industrial machinery. The graph shows that the decline in sales has not yet stopped due to the decline in business sentiment. However, the content of the graph shows that inventory adjustments have already been made to some extent, so that the feeling of bottoming out in real terms appears to some extent.

However, for example, three months ago, I talked about expectation of recovery from early autumn. There is still no sense of a strong return because of the US-China problem or such a sense of blockage in consumption. However, we believe that a recovery trend will emerge in the future.

(Unit : hundred millions of yen)

	FY2018.1Q (FY ended Jun 31, 2018)	FY2019.1Q (FY ended Jun31, 2019)	Increase / Decrease (YoY)	Increase / Decrease Ratio (YoY)
Sales	284.7	282.3	-2.4	-0.8%
COGS Ratio	55.8%	57.5%	+1.7	
SGA Ratio	27.1%	26.7%	-0.4	
Operating Profit	50.1	53.4	+3.3	6.5%
(%)	17.6%	18.9%	+1.3	
Earnings before income tax	57.0	56.7	-0.2	-0.4%
(%)	20.0%	20.1%	+0.1	
Net Profit	41.3	40.7	-0.7	-1.6%
(%)	14.5%	14.4%	-0.1	
Total Assets	3,367.8	3,421.0		
Shareholder's Equity Ratio	89.3%	88.8%		
Income Per Share	113.01 yen	111.56 yen		

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This is the P&L. As mentioned earlier, sales were 28.23 billion yen, a decrease of 2.4 hundred million yen, or 0.8% decline, compared with the same period of the previous fiscal year.

The cost of sales ratio and the SG&A expenses ratio were 57.5% and 26.7%, respectively, for a slight improvement over the previous fiscal year. Operating profit was 5.34 billion yen, a year-on-year increase of 3.3 hundred million yen, or 6.5%. The operating profit margin was 18.9% and earnings before income tax was 5.67 billion yen, a ratio of 20.1%. Net profit was 4.07 billion yen, with a 14.4% ratio, a decrease of 0.7 hundred million yen, or 1.6%, from the same period of the previous fiscal year.

The balance of total assets was 342.1 billion yen, and I will explain it in the B/S later. The shareholders' equity ratio was 88.8% and income per share was 111.56 yen.

Major Changes over prior same period FY2019.1Q



(Unit : hundred millions of yen)

■ Sales

2.4 hundred million yen Decreased
(284.7 → 282.3)

Non consolidated Hirose : **-10.7**

Subsidiaries : **+8.3**

■ COGS Ratio

1.7 point Increased (55.8% → 57.5%)

Purchase Cost Ratio : 38.1% → **38.4%**

Depreciation Ratio : 7.5% → **9.0%**

■ SGA Ratio

0.4 point Improved (27.1% → 26.7%)

77.1 → 75.5 (1.6 hundred million yen Decreased)
(Decreased in business consignment expenses)

■ Financial revenue / expense

3.5 hundred million yen Decreased
(+6.9 → +3.4)

Foreign Exchange Gain / Loss : +3.7 → **-0.7**

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Major year-on-year changes are summarized here. Sales decreased by 2.4 hundred million yen, with Hirose's non-consolidated sales of negative 1.07 billion yen and subsidiaries of positive 8.3 hundred million yen.

The cost of sales ratio worsened by 1.7 percentage points, because the purchase cost ratio rose slightly from 38.1% to 38.4%, and the depreciation expense ratio rose from 7.5% to 9%. We have been investing for the past few years, so this was in line with the plan.

The ratio of selling, general, and administrative expenses was 0.4 percentage points better, decreasing by 1.6 hundred million yen, from 7.71 billion yen to 7.55 billion yen, due mainly to a decrease in outsourcing expenses.

Financial revenues and expenses worsened by 3.5 hundred million yen. Foreign exchange losses were incurred over the previous fiscal year.

(Unit : hundred millions of yen)

	Sales	Operating profit	(%)	Earnings before income tax	(%)
FY2018.1Q Actual	284.7	50.1	17.6%	57.0	20.0%
Exchange rate	-5.0	0.9		-3.7	
Depreciation cost increase		-6.3		-6.3	
Labor cost increase		-1.6		-1.6	
Increase in the product	2.6	0.4		0.4	
Others		9.7		10.9	
Total amount of change	-2.4	3.3		-0.2	
FY2019.1Q Actual	282.3	53.4	18.9%	56.7	20.1%

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This is a summary of the variation analysis. Breakdown of changes in the first quarter of the current fiscal year compared to the first quarter of the previous fiscal year. As shown on the following page, the impact of foreign exchange rates on sales was negative 5 hundred million yen, on operating income was positive 0.9 hundred million yen, and earnings before income tax was negative 3.7 hundred million yen.

The increase in depreciation expenses was explained on the previous page. Personnel expenses slightly increased by 1.6 hundred million yen, but to some extent they remained unchanged.

There was a slight profit due to increases in the products. Others added 9.7 hundred million yen in operating profit and Others also added 1.09 billion yen to earnings before income tax. A temporarily recorded income was the main reason for the increase in profits in the first half of the current fiscal year.

	FY2018.1Q	FY2019.1Q
Currency rate : US\$	109.07 yen	109.90 yen
Currency rate : €	130.06 yen	123.49 yen
Currency rate : 100won	10.12 yen	9.43 yen



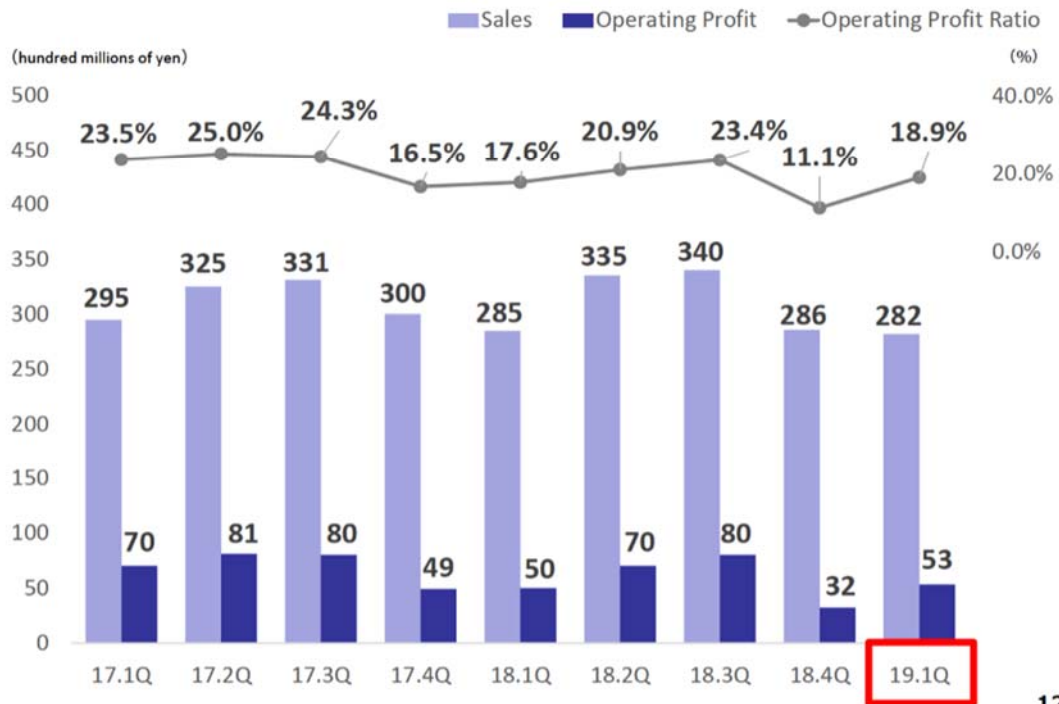
(Unit : Hundred millions of Yen)

Year-on-Year Currency effect amount	
Sales	-5.0
Operating Profit	+0.9
Earnings before income tax	-3.7

Only the effects of exchange rates are taken out. For the first quarter of FY2019, the dollar was 109.9 yen, the euro was 123.49 yen, and the won was 9.43 yen per 100 won.

As in the previous page, the effect on sales was negative 5 hundred million yen, on operating profit was positive 0.9 hundred million yen, and on earnings before income tax was negative 3.7 hundred million yen.

FY2017.1Q - FY2019.1Q Quarterly Sales and Profit History



Above is a simple graph showing trends in sales and profits by quarter. The results of the first quarter were not satisfactory. We have seen some recovery in profit, but sales were not enough.

Changes in Consolidated Balance Sheet

Unit: hundred millions of yen

	Account	Mar 31, 2019	Jun 31, 2019	Increase / Decrease	Remark
A S S E T S	Cash and Cash equivalents	523.2	545.3	22.0	Time deposit matured and others
	Trade receivables and other claim	295.4	289.4	-6.0	
	Inventories	139.4	144.6	5.2	
	Other financial assets	1,728.8	1,686.9	-43.0	Consumption taxes receivable refund Δ 20.8 Corporate bond Δ 10.0
	Tangible fixed assets	627.4	628.4	0.9	
	Right-of-use assets	—	46.5	46.5	Application of IFRS16
	Others	100.0	80.9	-19.1	
	Total Assets	3,414.3	3,421.0	6.7	

Total of cash in bank 1,727.6 1,716.5 -11.1

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Cash and cash equivalents increased by 2.2 billion yen. Other financial assets decreased 4.3 billion yen, due to refunds of consumption taxes receivable and bonds.

One new issue in the quarter under review was the application of lease accounting. We have begun to apply the IFRS 16, so the impacts are seen in assets and liabilities. 4.65 billion yen were recorded as right-of-use assets.

Changes in Consolidated Balance Sheet

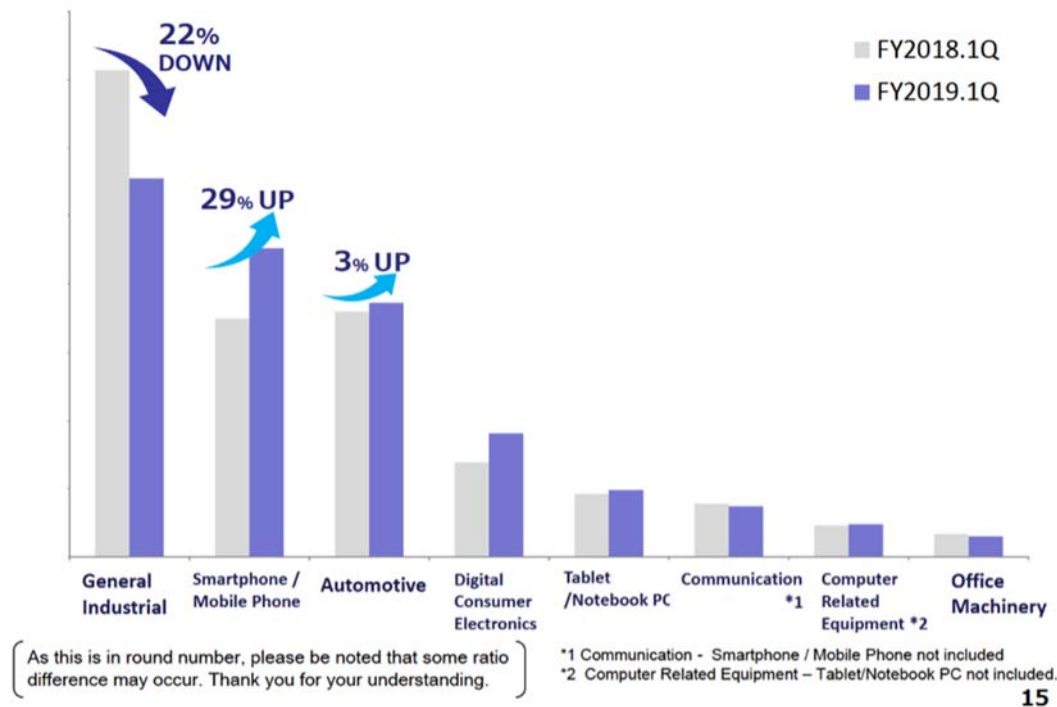
Unit: hundred millions of yen

	Account	Mar 31, 2019	Jun 31, 2019	Increase / Decrease	Remark
Liabilities	Payables and other debt	193.1	199.8	6.8	
	Lease liabilities	—	46.4	46.4	Application of IFRS16
	Income Taxes Payable	30.9	25.7	-5.1	
	Others	117.1	112.2	-4.9	
	Total	341.0	384.1	43.1	
Shareholder's Equity	Capital stock and Capital surplus	207.2	207.2	-0.0	
	Retained Earnings	3,033.5	3,015.6	-17.9	Net Profit: 40.7 — Dividend: 43.8 — Cancellation of treasury shares: 14.9
	Treasury Stocks	-232.1	-217.3	14.9	Share buy-back : + 14.9
	Others	64.8	31.5	-33.3	Foreign currency translation adjustment : -36.7
	Total	3,073.3	3,036.9	-36.4	
	Total Liabilities and Shareholder's Equity	3,414.3	3,421.0	6.7	

As for the lease accounting, the liability was also recorded at 4.64 billion yen.

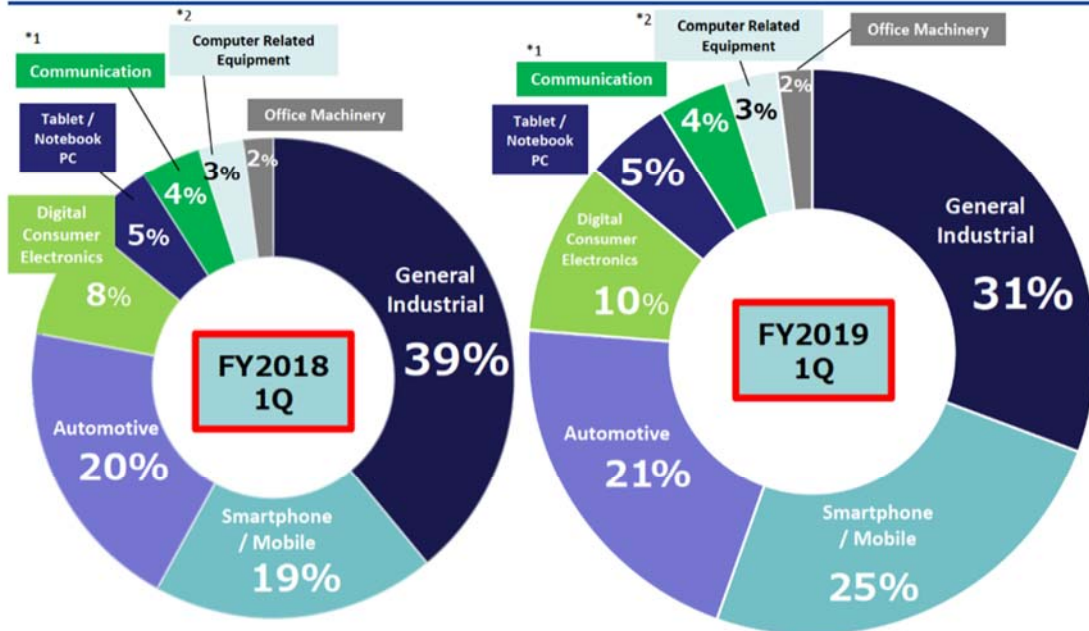
The cancellation of treasury stock amounted to 1.49 billion yen. Assets totaled 342.1 billion yen.

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



Year-on-year comparisons by segment. Sales of general industrial were down by 22%. There was a 29% increase in smartphones and a 3% increase in automotive. There are no figures for digital consumer electronics, but this also increased significantly.

Sales by Application (round number) (Consolidated Basis)



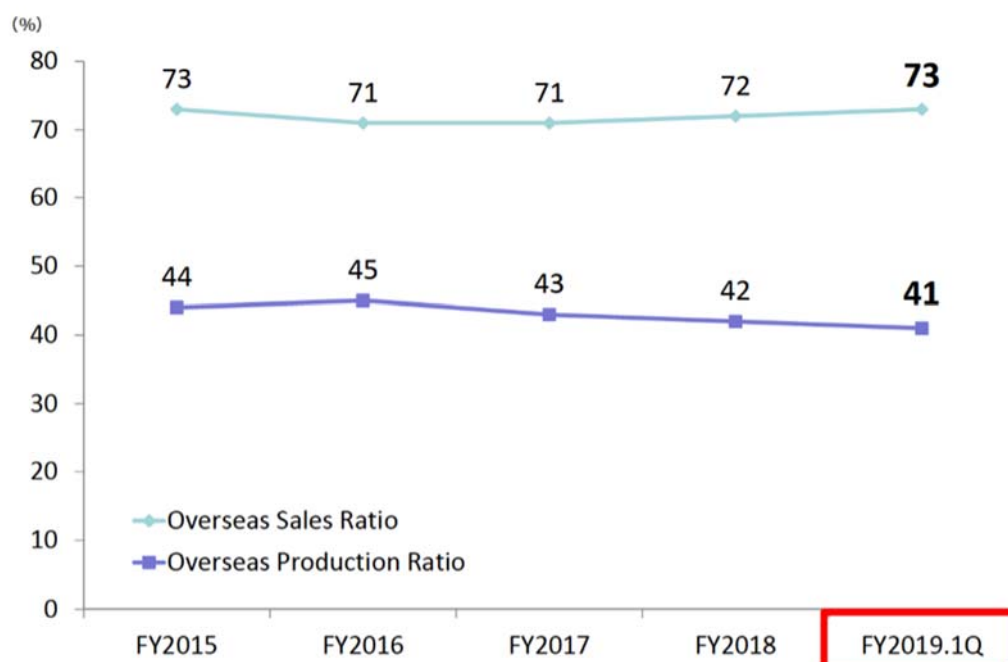
As this is in round number, please be noted that some ratio difference may occur. Thank you for your understanding.

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

This is a graph and a percentage distribution. Sales for general industrial declined by 8 percentage points, from 39% in the previous year to 31% in the current fiscal year.

In this first quarter, sales for smartphones were positive, so the ratio was up 6 points from the previous fiscal year, or 25%. Sales for automotive accounted for 21% of the total, with a slight increase.

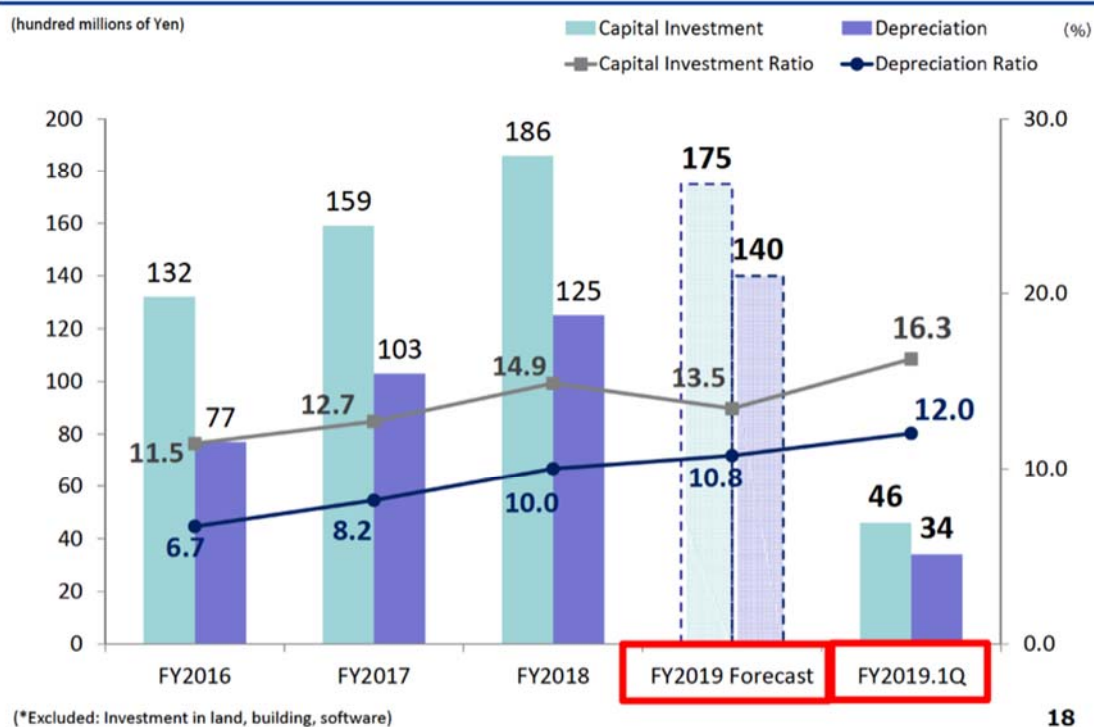
Overseas Production and Sales Ratio



The overseas sales ratio and production ratio are as shown. The sales ratio rose from 72% in FY2018 to 73% in the first quarter under review, an increase of 1 percentage point. This reflects the fact that sales for smartphones have increased, and sales for general industrial, which is centered on domestic market, have declined.

In addition, the overseas production ratio declined from 42% in FY2018 to 41% in the first quarter under review. The decline in general industrial was the reason behind the decline. Operations at overseas plants have declined slightly. We are also taking steps to strengthen overseas plants, including the recovery of market conditions, in the medium term.

Capital Investment and Depreciation Change (Consolidated Basis)



Investment and depreciation trends. In the first quarter of FY2019, which is the right-hand side of the table, capital investment was 4.6 billion yen and depreciation was 3.4 billion yen. Although not stated here, R&D expenditures in the first quarter were 3.2 billion yen.

Incidentally, the annual forecast remains unchanged, with about 13 billion yen.

The forecast of capital investment and depreciation have not changed with 17.5 billion yen and 14 billion yen, respectively.

Business Forecast for the Year Ending March 31, 2020 (Consolidated) [IFRS]

(Unit: Hundred millions of yen)

	FY2018 (FY ended Mar31, 2019) Actual		FY2019 (FY ended Mar31, 2020) 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	619.6	1,245.9	620.0	1,300.0	0.4	0.1	54.1	4.3
COGS Ratio	55.6%	56.2%	55.6%	55.4%				
Operating Profit	120.2	231.6	110.0	250.0	-10.2	-8.5	18.4	8.0
(%)	19.4%	18.6%	17.7%	19.2%				
Earnings before income tax	130.4	246.7	115.0	260.0	-15.4	-11.8	13.3	5.4
(%)	21.0%	19.8%	18.5%	20.0%				
Net Profit	93.2	178.9	80.0	185.0	-13.2	-14.2	6.1	3.4
(%)	15.0%	14.4%	12.9%	14.2%				
Income Per Share	—	489.46 yen	—	507.37 yen				
Dividend Per Share	120 yen	240 yen	120 yen	240 yen				
Consolidated Dividend Payout Ratio	—	49.0%	—	47.3%				

Currency Rate	FY2018 Actual	FY2019.1Q Actual	(As of May, 2019)
1US\$	110.91yen	109.90yen	110.00 yen
1€	128.41yen	123.49yen	125.00 yen
100won	9.98 yen	9.43yen	9.80 yen

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This is the last slide of the explanation. This fiscal year's business forecast. There is no change from the announced figures in May. Sales of 130 billion yen and operating profit of 25 billion yen remain unchanged from the figures announced in May. That's all. Thank you very much.

Fukumoto: Good morning. I am Fukumoto of the Administration Group Hirose Electric Co., Ltd. I became a Corporate Board Director and Group President of Administration Group at the general meeting of shareholders on June 27. I would like to ask for your continued support.

We thank you for you coming in the hot summer today. I appreciate many analysts and institutional investors who have long seen Hirose, as well as new visitors.

Suzaki has explained the financial results for the first quarter. I would like to make some comments or supplements about four points.

The four points consist of the results of the first quarter, the full-year forecast, various internal measures to improve our business performance, and corporate governance.

Here, quarterly sales, operating profit and operating profit margin were 28.2 billion yen, 5.3 billion yen, and 18.9% in Q1, respectively.

Operating profit margin was 11.1% in the fourth quarter of the previous fiscal year, so it can be seen as recovering a little. In the fourth quarter of fiscal 2018, the cost including disposal of facilities was about 600 million yen.

In the first quarter under review, gains of roughly 840 million yen on the sale of land were recorded. We use IFRS from the fiscal 2018. Under IFRS, such items are included in operating profit, so in reality, the operating

profit margin for the fourth quarter of the previous year was about 13.3% when roughly calculated. For the first quarter, 18.9%, but it is down about 3 points to 15.9%. I think that this kind of recognition needs to be made.

Unfortunately, if sales are approx. 28 billion yen, the 20% of operating profit margin that we consider to be the minimum cannot be achieved.

As for the sale of land, we have lands in Shimomaruko, Komaoka in Yokohama and Narashino, where we had a factory or which we had used as parking lots. We are trying to steadily remove such assets that are not directly linked to businesses and working to streamline them.

From fourth quarter to first quarter, sales for automotive have been sluggish a little, and the effects of this have also begun to emerge a little.

Regarding general industrial, it seems fairly drastic. We are affected by the overall demand and order decline for general industrial.

Recently, we have begun to receive orders a little more from the fourth quarter. At this point, however, it is difficult to see whether orders will recover in the second half of this fiscal year. We are very troubled, but this is the situation.

It is true that this year's announced figures have been left unchanged. As you know, the impact of the US-China relationship and Japan-South Korea relationship on business is extremely uncertain at this point.

Since last weekend, the yen has been approaching 106 yen. That's why we are not yet able to grasp the impact. In reality, we are presenting many new products and connectors for automotive and general industrial, and we have received inquiries. However, it is still unclear how the base load, which is affected by economic conditions, will move.

As a result, this figure has been left unchanged in the first quarter. I think a review may be carried out in early November at the time of the Second Quarter settlement of accounts.

However, basically, as our president Ishii mentioned last time, the basic strategy to grow our consumer relations, automotive, and general industrial over the medium term will not change. We are looking at the timing when the results of the strategy will emerge.

Third, as for measures to improve business performance, I feel that the figure of 28.2 billion yen in the first quarter was a little short of our expectations.

About 30 billion yen was our expectation, but this was the situation. Amid increasing uncertainty, we have to tighten our policies internally as well. There are various measures, including personnel expenses. I would like to refrain from specifically talking about it today, but we have been working to strengthen automotive by offering executive allowance and cost of business trips, and career recruitment. I believe that we should revise this once.

In addition, IT-related investments have been outsourced, so we are also looking forward to reviewing these areas.

At the same time, there is a surge in logistics costs in many areas. There are still many things we carry by airlines, so we are going to consider whether part of products will be shipped or how to deliver for small-lot products. Naturally, we are doing direct reductions in the cost of materials.

Looking at the first quarter, the capacity utilization rates of domestic and overseas factories have declined. This is particularly true at overseas plants, so we would like to review expenses, personnel, and other measures.

We have been reducing equipment costs and making further use of existing equipment, for both fixed and variable costs, but we have decided to redouble these efforts once more.

In addition, over the past few years, we have significantly increased our investment in human resources and equipment by shifting our focus to automotive and general industrial. It is true that fixed costs are rising compared to the past. This is basically what we had assumed from the outset, but we will look back again at this point.

We intend to carefully sort out the various investment recovery plans, which seem to be slightly delayed, and in short, the sales that we originally looked at have not been successfully achieved, and to examine the causes and countermeasures.

Automotive-related businesses require capital expenditures, so we would like to operate by further organizing the initiatives in areas of production technology and manufacturing.

The number of micro connectors used in smartphones has increased by about two times over the last five years. However, the increase in sales is about 1.4 times. It is true that prices are becoming more severe. We intend to further reduce costs and expand sales of micro connectors such as those developed for smartphones, thereby actively promoting sales of consumer products.

Fourth, I would like to talk about a little about corporate governance. Also, for many other companies, I think there were many cases in which shareholders voted against the top management on the agenda for the appointment of directors at this year's general meeting of shareholders.

Although we had been opposed by a few percent in the past, we received nearly 20% in the current fiscal year. As we have many foreign investors and many shareholders, it has become clear that there are many shareholders who voted against the Board of Directors, with regard to the ratio of outside directors and the appointment of female executives. We would like to make preparations for this issue in a way that will increase the number of votes in favor of us as much as possible for the coming year.

This was a very rough explanation, but one of the reasons why you are coming today is that the business of Hirose Electric is highly profitable in the face of a challenging business environment. We would like to make continued efforts to recover as much as possible. So, I would like to conclude my brief explanation. Thank you very much.

Suzaki: We would like to accept your questions, but before that, we would like to introduce one point to you. The IR Department has changed its structure in July, and the number of employees has been increasing. So, we will introduce a new member. Nagoya.

Nagoya: I joined the IR Office of the Administration Division. Thank you for your support.

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.