Hirose Electric Co., Ltd.

Q1 Financial Results Briefing for the Fiscal Year Ending March 31, 2027

Q&A Summary

Q1
What was the B/B ratio by market segment in Q1 FY2026?

A1
General industrial: slightly above 1.2; smartphones: slightly below 1.1; consumer, automotive, and telecommunications infrastructure: slightly above 1.1; SER (probe-related business): 0.9.

Q2
Orders appear even stronger than in the previous quarter. Do you believe any portion reflects front-loaded orders?

A2
While it is difficult to clearly distinguish real demand from front-loaded orders, we continuously monitor order trends through ongoing dialogue with customers and market developments. We recognize that some orders may have been brought forward, but we accept orders only after confirming the strength of customers' production plans and demand outlooks.

Q3
In the analysis of YoY changes in operating profit, material and procurement cost increases reduced profit by JPY2.5 billion. What was the impact versus the previous quarter (FY2025 Q4)?

A3
Compared with FY2025 Q4, material and procurement costs increased by slightly less than JPY1.5 billion.

Q4

The earnings guidance assumes a cautious outlook from Q1 to Q2 and from H1 to H2. What is the background, and where is the upside potential?

A4

Our Q2 forecast is based on conservative assumptions. We expect seasonal demand in consumer products, including smartphones, while strong order trends continue in industrial equipment and automotive applications. However, sales plans reflect not only demand strength but also the ramp-up of production capacity and supply capabilities. We are expanding capacity in industrial and automotive products and conservatively factor in the timing and effectiveness of these measures. We also assume a stronger yen compared with Q1.

On the profit side, we continue to expect pressure from higher material and procurement costs. Although market prices have recently stabilized, inventory effects remain, and we therefore assume some cost increases in Q2. We also incorporate higher labor and depreciation expenses as well as costs associated with capacity expansion and growth investments.

At the same time, orders remain very strong and backlog continues to build. We are strengthening production facilities and material procurement ahead of H2. If these initiatives progress more smoothly than planned, both sales and profit could exceed our forecasts. While we currently maintain a conservative plan due to capacity and procurement risks, production levels remain high and we believe there is sufficient room to meet demand provided the product mix does not change significantly.

Q5

Have the assumptions for annual material procurement cost increases and price optimization changed from the initial guidance? Will higher material costs continue into Q2 despite stabilizing gold prices?

A5

Although material market prices have recently stabilized, the impact will remain for some time because of inventory holding periods. Assuming current market conditions continue, quarterly increases in material and procurement costs should gradually moderate from H2 onward. The annual assumptions for both price optimization and material/procurement cost increases remain unchanged from the initial guidance.

Q6

Please provide more detail on the industrial market segment, including key growth drivers, regional trends, customer wins, and new product contributions.

A6

Demand related to industrial equipment, including factory automation (FA) and machine tools, remained strong and drove growth in the general industrial segment. Regionally, sales to Europe and North America have increased quarter after quarter since the second half of FY2025, while Japan and China also recorded strong growth in Q1. These results reflect years of effort in expanding our customer base and promoting new products. Growth in applications such as servo motors, PLCs, CNC systems, and FA cameras expanded across regions and contributed to higher orders. Although difficult to quantify precisely, increased semiconductor investment and rapid AI-related demand growth also appear to be supporting demand throughout adjacent industries.

Q7

New products appear to be driving growth, particularly in industrial and consumer applications. Has the company's product mix changed, and is it contributing to profitability improvements?

A7

We have long targeted a 30% new-product sales ratio. New-product sales are currently exceeding expectations, and the shift toward new products is expected to improve profitability. Sales of new products for industrial applications are expanding, while existing products also remain strong. Although profitability in Q1 was negatively affected by the sharp rise in gold prices around year-end, price optimization efforts remain on track, generating JPY700 million in Q1 toward the full-year target of JPY3 billion. We are also promoting cost-reduction initiatives, including reducing gold usage, and are beginning to see results. Going forward, we will continue enhancing profitability through a better product mix, price optimization, and cost reductions.

Q8

Automotive performance remains very strong. What is your current view of demand, and is profitability improving as sales expand?

A8

Automotive demand remains solid in Japan, South Korea, and the United States. In Europe, orders from Tier 1 suppliers are increasing. While trends vary by customer in China, overall demand remains positive. Profitability is steadily improving due to higher utilization rates associated with sales growth. We continue to pursue price optimization in the automotive business as well. Although profitability remains lower than in consumer and industrial markets, we aim to improve margins through sales growth, price optimization, and ongoing cost reductions, targeting a sustainable operating margin of more than 20% in the future.

Q10
Have there been any new developments in AI server-related business within the telecommunications infrastructure segment?

A10
AI server-related business in the telecommunications infrastructure segment remained strong in Q1, with demand continuing at a high level and no major change from the previous quarter. Inquiries regarding next-generation products are steadily increasing, and discussions with multiple customers are under way. We are also focused on securing new business opportunities to accelerate growth in AI-related markets. In addition to cloud-side demand, we see significant opportunities in edge AI applications such as smartphones, wearable devices, automotive equipment, FA systems, and humanoid robots. We intend to capture market growth by providing connector solutions across a broad range of AI server, cloud, and edge AI applications.

Q11
What initiatives are being taken to support the medium-term growth of Hirose SER, the probe-related business?

A11
To achieve the FY2026 sales target of JPY6 billion, Hirose SER is steadily expanding production capacity. Looking beyond that target, we recognize the need for further investment to support additional capacity expansion and business growth, and the matter is being discussed as an important management priority. In addition to expanding sales of existing products, we are exploring new applications and customer needs, as well as opportunities beyond the traditional probe-pin market and into adjacent technologies. While we are not yet in a position to disclose specific details, we are formulating a medium- to long-term growth strategy and intend to provide a clearer picture of Hirose SER’s growth roadmap in the future.
