HIROSE ELECTRIC CO., LTD.
Q3 Financial Results Briefing for the Fiscal Year Ending March 2021

February 3, 2021
**Event Summary**

[Company Name]  HIROSE ELECTRIC CO., LTD.

[Company ID]  6806-QCODE

[Event Type]  Earnings Announcement

[Event Name]  Q3 Financial Results Briefing for the Fiscal Year Ending March 2021

[Fiscal Period]  FY2020 Q3

[Date]  February 3, 2021

[Time]  16:00 – 16:51  
(Total: 51 minutes, Presentation: 19 minutes, Q&A: 32 minutes)

[Venue]  Webcast

[Number of Speakers]  1

Hideo Suzaki  Manager, IR Office, Administration Group
Presentation

Suzaki: Hello. We will now hold the HIROSE ELECTRIC financial results briefing. Thank you for joining us today. I’m Suzaki from HIROSE ELECTRIC’s IR Office. Thank you.

This is another web-based briefing, and we have held four consecutive quarterly briefings. This will be a presentation only with audio and materials, but I will try to explain as clearly as possible.

Regarding today’s speaker, Fukumoto, Group President-Administration, is unfortunately unable to attend due to some inconvenience, so I will be in charge of explanations, and the question-and-answer session.

First, I would like to explain how to operate the web screen. Following that, I will provide explanations based on today’s materials. We will take your questions in the remaining time. The meeting is scheduled to close at 5:00 PM, so please cooperate with us for the proceedings.

First of all, I would like to briefly explain the operation of the web briefing.

The presentation materials are displayed on the screen as you can see, but the participants are free to turn the pages of the presentation materials. I will tell you the page number first in the explanation.

In addition to the presentation materials, there is also a download link for the summary of financial results released at 3:00 PM today. As for the notice regarding the revision of the earnings forecast, you can find it on our website by jumping to the link on the HIROSE ELECTRIC IR page.

Also, I would like to briefly explain how to enter your question. If you have a question, you can enter text from the screen you are participating in. We will basically respond to each question one by one, but if there are identical questions, we may combine them into one answer.

I will now begin to explain the financial results.
First, please refer to page three of the financial results presentation materials. Summary of the business results.

In the third quarter of FY2020, orders received were JPY38.1 billion and sales were JPY37.44 billion, due to recovery and growth in the automotive and smartphone markets. This was a record high for the quarter in terms of both orders and sales.

In the cumulative third quarter, sales increased by 7.6%, operating profit increased by 31.1%, and operating profit ratio was 21.6% compared with the previous year.
This is a graph showing quarterly sales and profit trends. In the third quarter, both sales and profits increased following the second quarter both on a YoY basis and on a QoQ basis.
Next, page five. The following is a summary of the business results.

In the cumulative third quarter, sales increased by 7.6% to JPY98.48 billion. Operating profit increased by 31.1% to JPY21.24 billion. Operating profit ratio was 21.6%. Earnings before income tax were JPY20.81 billion. Net income for the period was JPY14.98 billion.

Total assets were JPY356.49 billion, shareholder’s equity ratio was 88.7%, and income per share was JPY413.09.

The actual exchange rates were JPY106.11 to the USD, JPY122.38 to the EUR, and JPY9.05 to KRW100.
Next, page six. The following is a list of major changes in the cumulative third quarter on a YoY basis.

Net sales increased by JPY6.95 billion, of which JPY4.91 billion was on the non-consolidated side and JPY2.04 billion was on the subsidiary side.

COGS ratio deteriorated by 0.3 percentage points from 57.2% to 57.5%, but this was due to a 0.6 percentage point increase in the depreciation and amortization ratio, which is in line with the plan.

The SG&A ratio improved by 2.4 percentage points, and the amount decreased by JPY640 million, from JPY22.76 billion of the previous year to JPY22.11 billion.

The financial account balance deteriorated by JPY1.14 billion, but this was due to a large foreign exchange loss caused by the strong yen.
Next, page seven, please. This is a variance analysis compared to the previous year.

The foreign exchange impact is a decrease of JPY990 million in sales due to the strong yen in the current fiscal year. Operating profit decreased by JPY800 million. Earnings before income tax decreased by JPY1.67 billion.

The JPY600 million increase in depreciation and amortization is attributable to the planned increase in depreciation and amortization due to the large amount of upfront investment in new products for automotive, et cetera, until last fiscal year.

The increase in freightage and packing expenses is due to higher transportation costs.

Gain on sale of land, insurance income, and Koriyama flood loss are temporary, and will be supplemented on the next page.

The decrease in travel and overseas travel expenses is due to the cost reduction caused by the restriction of activities due to the impact of the coronavirus.
Now, please look at page eight.

The following is a supplementary list of changes in operating profit excluding one-time factors. We do not have anything major for the second quarter and third quarter of this fiscal year, so this will be a review of the past.
Next, page nine, B/S.

The first is the asset section. Trade and other receivables increased due to an increase in accounts receivable from increased sales.

Inventories have increased since the beginning of the year, but have decreased since the end of September.

The increase in other financial assets is due to an increase in rather non-speculative bonds, et cetera, and time deposits.
Next, page 10. This is the liabilities and shareholder’s equity of the B/S.

The balance of total liabilities and shareholder’s equity was JPY356.49 billion.
Next, page 11, please. This is the trend of capital investment and depreciation.

Capital investment for the cumulative third quarter was JPY9.6 billion and depreciation was JPY11.4 billion. As for depreciation, we are of the view that it is proceeding as planned at the beginning of the year. Investment was JPY9.6 billion in the cumulative third quarter, partly due to the low level of investment in the first half of the fiscal year, and we are now reviewing the full year.

The amount of investment in the first half was JPY5.7 billion, and if we isolate the third quarter alone, it was JPY3.9 billion. To account for the decrease in the first half, we have reduced the amount by JPY2 billion from JPY16 billion at the beginning of the year to JPY14 billion. Although the coronavirus has had an impact this fiscal year, the increase in sales this fiscal year is mostly due to an increase in sales of existing products, which cover a wide range of applications and varieties, so there is less investment to increase production than in previous years.

Also, I would like to add something about R&D expenses. The cumulative total for the third quarter was JPY7.5 billion. We believe that the annual forecast is JPY11 billion.
Next, page 12. This is the ratio of overseas production and overseas sales.

The production ratio was 48% in the cumulative third quarter. In the first half of the year, it was 49%, so a decrease of 1 percentage point. This was due to an increase in domestic production attributable to higher sales for automotive in the third quarter.

The sales ratio was 77% in the cumulative third quarter, up 1 percentage point from 76% in the first half. This was due to an increase in sales of products for smartphones and automotive.
Next, page 13. From here, there are six slides for different applications.

First of all, this page is for general industrial machinery.

As a result of an increase in demand for FA-related products, industrial machinery as a whole is on a moderate recovery trend. In the second half of the fiscal year, it had a somewhat grim outlook, but sales for FA were strong, supporting the overall performance. The composition ratio has temporarily dropped to 31%, but we are hoping that it will recover in the future.
Next, page 14, please. For the smartphone.

From the second quarter, when sales were at a high level, we consider it a good trend that sales increased in the third quarter as well. Sales remained strong due to the need for higher performance with new 5G-compatible models. In the fourth quarter, we believe that our view of seasonality adjustments will be the same as in previous years.
The market has been recovering than we expected.

The next section, page 15, is for the automotive and mobility related.

From JPY5.2 billion in sales in the second quarter to JPY7.5 billion in sales in the third quarter, a large increase of more than 40%, the recovery trend exceeded our expectations. The composition ratio was 15% in the first half, but has recovered to 17% in the cumulative third quarter.

As you will see in the following pages, the annual sales forecast for the automotive industry has recovered to the level of the previous year. I will explain again later.
Remote work has taken root, and demand for personal and small consumer devices has increased, resulting in continued strong performance this quarter. Due to seasonality, we had expected a decline in the third quarter compared to the previous quarter, but the level remained high.
Sales by Application: Telecommunications infrastructure equipment / OA equipment (Office Machinery)

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Top in hundred millions

- **FY2020.1Q-3Q:** Composition ratio
  - Telecommunications infrastructure: 4%
  - OA equipment: 2%

- **Changes in quarterly sales**
  - Telecommunications infrastructure:
    - 2019.1Q: 6
    - 2019.2Q: 11
    - 2019.3Q: 14
    - 2019.4Q: 15
    - 2020.1Q: 14
    - 2020.2Q: 11
    - 2020.3Q: 13
  - OA equipment:
    - 2019.1Q: 14
    - 2019.2Q: 7
    - 2019.3Q: 8
    - 2019.4Q: 6
    - 2020.1Q: 5
    - 2020.2Q: 5
    - 2020.3Q: 5

Next, page 17. Sales of telecommunications infrastructure equipment and OA equipment, office machinery.
Next, page 18, please. Here is an update of the annual sales forecast by major application.

All areas have been revised to the positive side from the previous forecast in November. In particular, sales for the automotive application, which until the first half of the year were expected to be down by double digits YoY, at minus 12%, have recovered more than expected and are now seen to be flat to slightly up for the fiscal year.
We expect that the business for consumer and mobile devices, general industrial, automotive and mobility, will increase than our forecast published in November 2020. We revised our full year consolidated business forecast announced on November 2, 2020 upward.

Next, page 19. Today, we issued a notice regarding the revision of the full-year earnings forecast, along with the summary of financial results that was already disclosed to the TSE earlier.

The newly announced figures are JPY130 billion in sales, JPY26 billion in operating profit, 20% operating profit ratio, and JPY18 billion in net income.

We have revised our full-year business forecast announced in November, as we expect business for the consumer and mobile equipment, the general industrial, and the automotive and mobility to exceed the previous forecast.
Next is the last page, page 20.

This is a summary of the business forecast. The annual forecast, sales and profits, are as I mentioned on the previous page, and income per share is JPY496.29, and the annual dividend is JPY240, with a payout ratio of 48.4%.

The exchange rate assumptions for the year are JPY105.46 to the USD, JPY123.28 to the EUR, and JPY9.14 to KRW100.

That is all the explanation from me.

Thank you very much. This concludes the HIROSE ELECTRIC financial results briefing. Thank you for your continued support.

I would like to have a face-to-face meeting in May of the next fiscal year, if possible, but there is nothing I can do about this. I hope you all take good care of yourselves and I hope to see you in person next time.

Thank you very much.
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.