

Hirose Electric Business Results for FY2018

Business Results for FY2018

May 9th, 2019

Hirose Electric Co., Ltd.

[6806]

Cautionary Statement

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.

Business Situation of FY2018 (Apr,2018 – Mar,2019)

FY2018
(Apr - Mar)

Order **1,250.4** hundred million yen
(YoY **-1.3%**)

Sales **1,245.9** hundred million yen
(YoY **-0.4%**, Over estimate **+0.5%**)

Operating profit **231.6** hundred million yen ※Profit Ratio **18.6** %
(YoY **-17.5%**, Over estimate **-3.5%**)

Industrial market

Generally, the sales for Industrial market had been keeping the high level since FY2017, though some adjustments were made in FA related market.

However the sales declined in 4Q and FY2018 total sales for industrial market resulted flat compared to FY2017 ($\pm 0\%$ YoY)

Smartphone

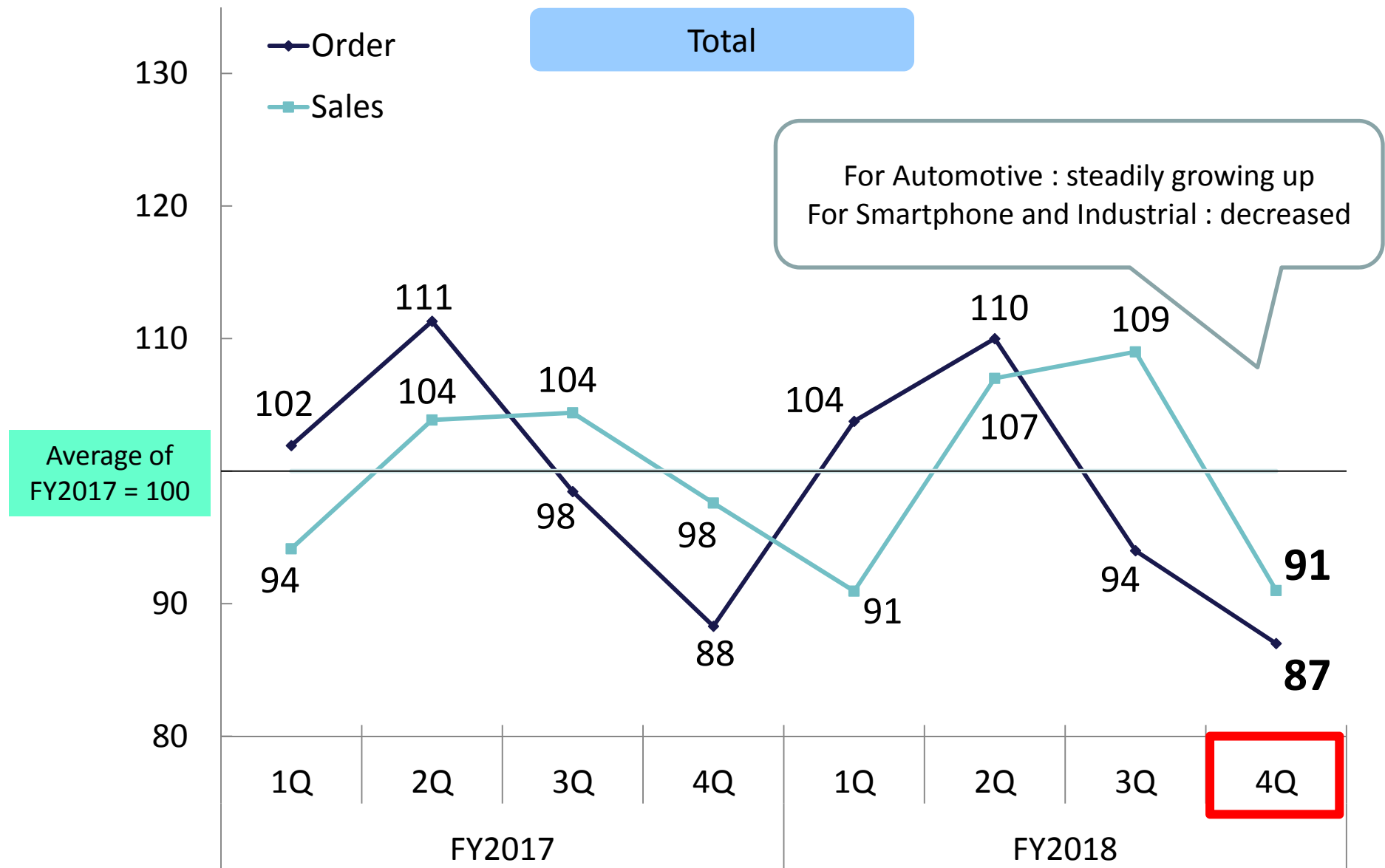
The sales for smartphone market went well until November in 3Q due to the demands for new customer's products.

On the other hand, the sales dropped because of inventory adjustment for some customer's products. As the result of that, the sales of FY2018 decreased by 9% YoY.

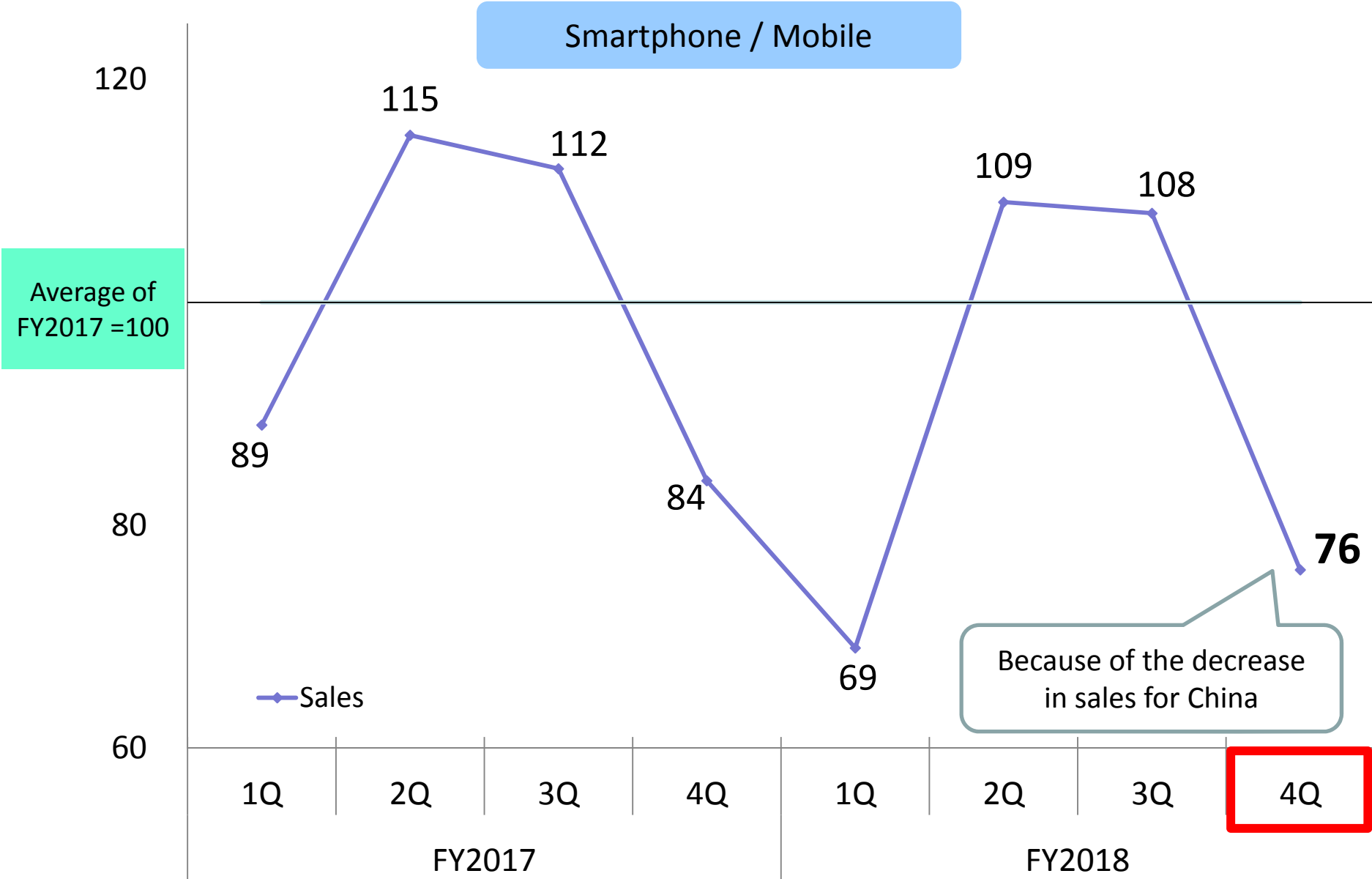
Automotive

The sales for Automotive has been steadily growing up and increased by 10% YoY.

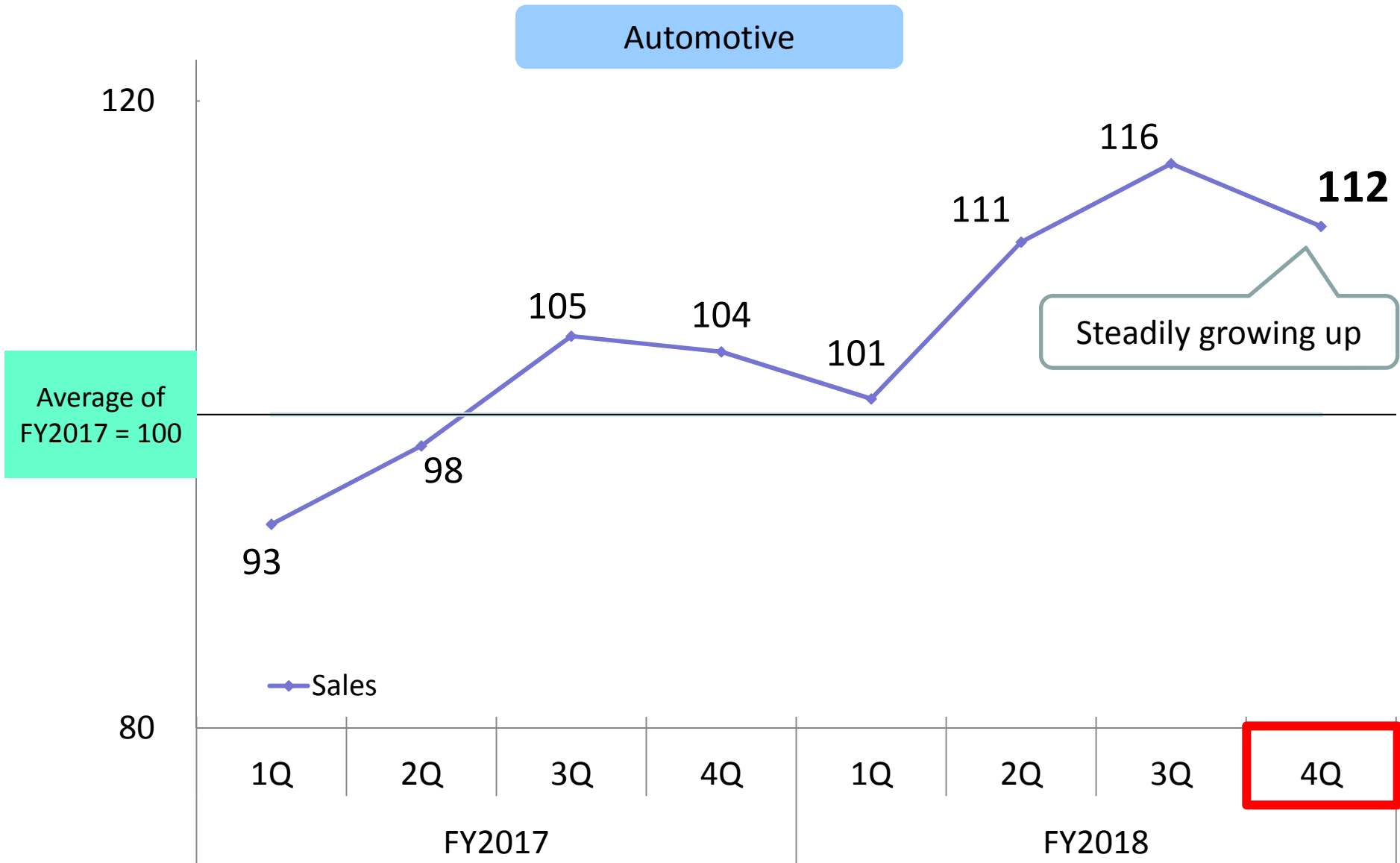
FY2017 1Q – FY2018 4Q Orders and Sales (Consolidated Basis, Index Number)



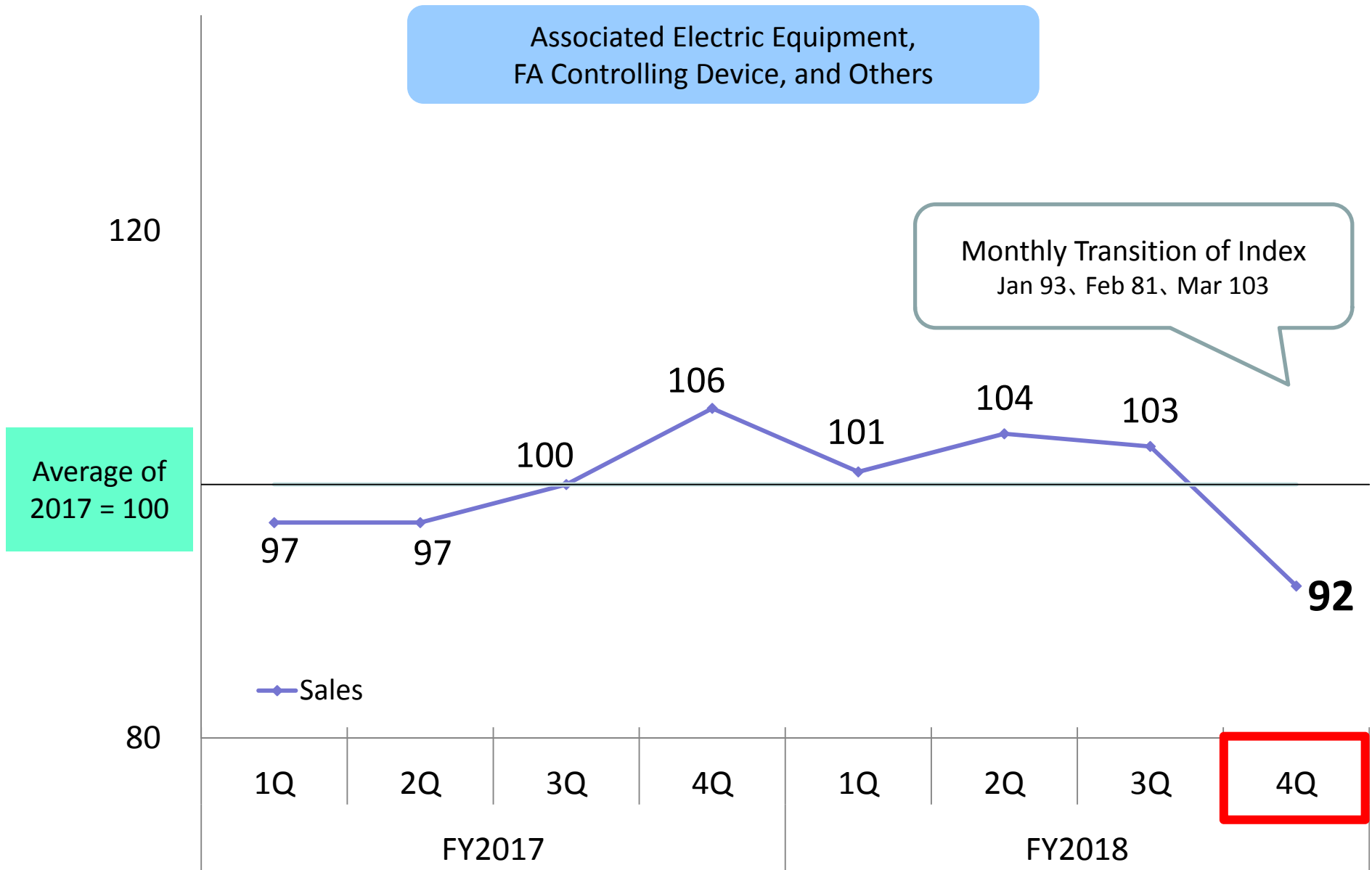
FY2017 1Q – FY2018 4Q Sales by Markets (Consolidated Basis, Index Number)



FY2017 1Q – FY2018 4Q Sales by Markets (Consolidated Basis, Index Number)



FY2017 1Q – FY2018 4Q Sales by Markets (Consolidated Basis, Index Number)



Business Results for FY2018 **[IFRS]**

(Unit : hundred millions of yen)

	FY2017 (FY ended Mar31, 2018)	FY2018 Forecast (2/6)	FY2018 (FY ended Mar31, 2019)	Increase / Decrease (YoY)	Increase / Decrease Ratio (YoY)
Sales	1,251.4	1,240.0	1,245.9	-5.5	-0.4%
COGS Ratio	53.8%	55.6%	56.2%	+2.4	
SGA Ratio	23.3%	25.0%	24.8%	+1.5	
Operating Profit	280.6	240.0	231.6	-49.1	-17.5%
(%)	22.4%	19.4%	18.6%	-3.8	
Earnings before income tax	280.2	254.0	246.7	-33.4	-11.9%
(%)	22.4%	20.5%	19.8%	-2.6	
Net Profit	191.1	183.0	178.9	-12.2	-6.4%
(%)	15.3%	14.8%	14.4%	-0.9	
Total Assets	3,411.8		3,414.3		
Shareholder's Equity Ratio	89.3%		90.0%		
Income Per Share	548.80 yen		489.46 yen		

Major Changes over prior same period FY2018

(Unit : hundred millions of yen)

■ Sales

5.5 hundred million yen **Decreased**
(1,251.4 → 1,245.9)

Non consolidated Hirose : **+10.2**

Subsidiaries : **-15.7**

■ COGS Ratio

2.4 point **Increased** (53.8% → 56.2%)

Purchase Cost Ratio : 37.8% → **38.8%**

Depreciation Ratio : 7.0% → **8.7%**

■ SGA Ratio

1.5 point **Increased** (23.3% → 24.8%)

292 → 309 (17 hundred million yen Increased)

(Increased in delivery expense and depreciation cost)

■ Financial revenue / expense

15.6 hundred million yen **Improved**
(-0.5 → +15.1)

Foreign Exchange Gain / Loss : **-9.5** → **+4.0**

FY2018 YoY Variation analysis

(Unit : hundred millions of yen)

	Sales	Operating profit	(%)	Earnings before income tax	(%)
FY2017 Actual	1,251.4	280.6	22.4%	280.1	22.4%
Exchange rate	-3.9	-1.7		11.9	
Depreciation cost increase		-22.4		-22.4	
Labor cost increase		-7.6		-7.6	
Delivery expense increase		-5.0		-5.0	
Business consignment expense increase		-4.9		-4.9	
Decrease in the product, etc	-1.7	-7.4		-5.4	
Total amount of change	-5.5	-49.1		-33.4	
FY2018 Actual	1,245.9	231.6	18.6%	246.7	19.8%

Currency Effect for FY2018

	FY2017	FY2018
Currency rate : US\$	110.85 yen	110.91 yen
Currency rate : €	129.70 yen	128.41 yen
Currency rate : 100won	10.00 yen	9.98 yen



(Unit : Hundred millions of Yen)

YoY Currency effect amount	
Sales	-3.9
Operating Profit	-1.7
Earnings before income tax	+11.9

Changes in Consolidated Balance Sheet

Unit: hundred millions of yen

	Account	Mar 31, 2018	Mar 31, 2019	Increase / Decrease	Remark
A S S E T S	Cash and Cash equivalents	694.0	523.2	-170.7	Payment of dividend, Corporate tax, etc
	Trade receivables and other claim	315.0	295.4	-19.6	
	Inventories	121.9	139.4	17.4	
	Other financial assets	1,629.8	1,728.9	99.1	Increased in bond purchase (Japan, Korea)
	Tangible fixed assets	562.0	627.4	65.4	Miyako (machines, buildings and structures) Headquarters (Molds and construction in progress accounts)
	Others	89.1	100.0	10.9	
	Total Assets	3,411.8	3,414.3	2.5	

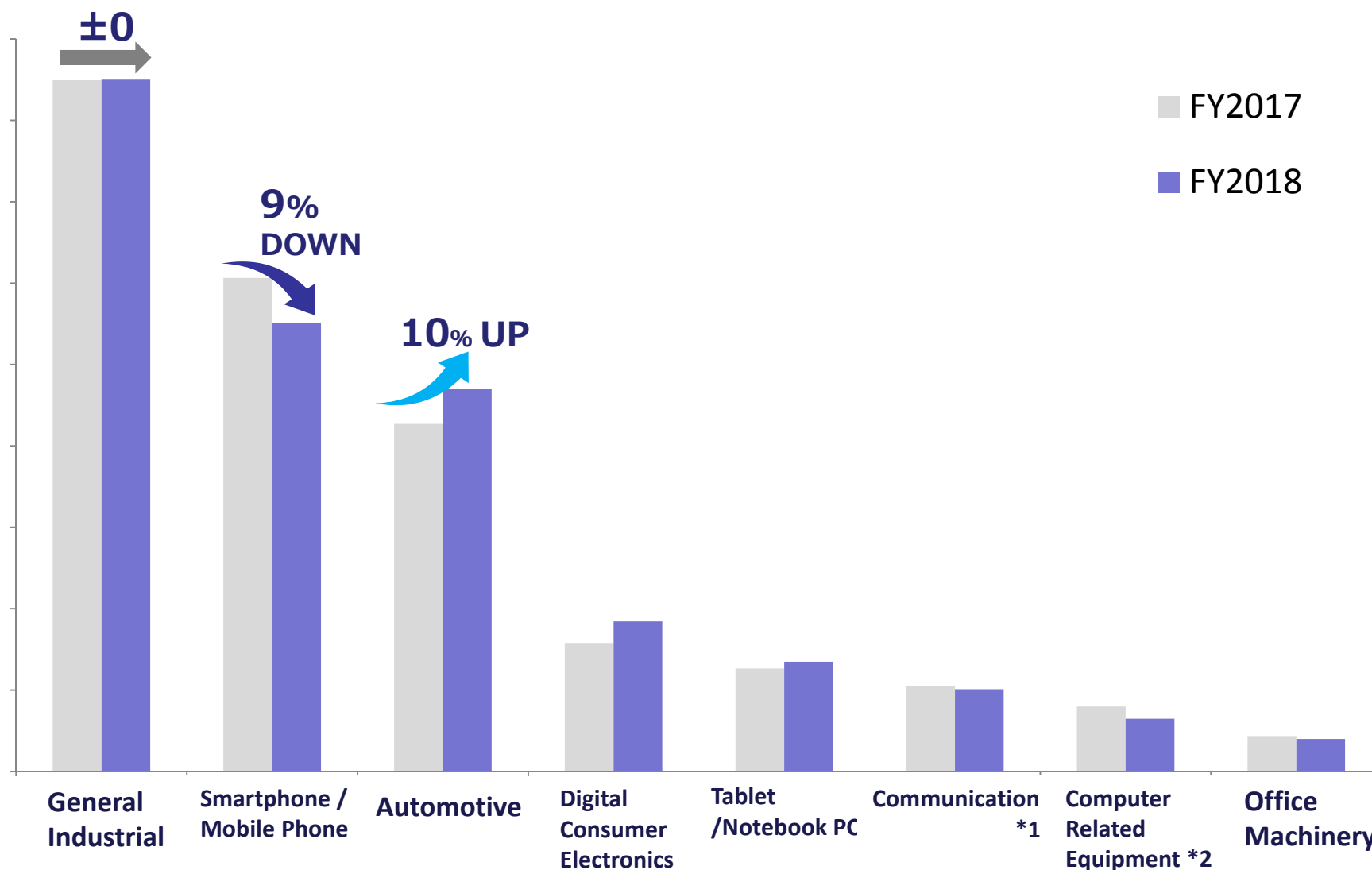
Total of cash in bank **1,866.4** **1,727.6** **-138.8**

Changes in Consolidated Balance Sheet

Unit: hundred millions of yen

	Account	Mar 31, 2018	Mar 31, 2019	Increase / Decrease	Remark
Liabilities	Payables and other debt	195.3	193.1	-2.2	
	Income Taxes Payable	49.5	30.9	-18.6	
	Others	119.8	117.1	-2.8	
		364.6	341.0	-23.6	
Shareholder's Equity	Capital stock and Capital surplus	210.8	207.2	-3.6	
	Retained Earnings	3,345.1	3,033.5	-311.6	Net Profit: 178.3 — Dividend: 127.5 — the Allotment of share and Cancellation: 363.0
	Treasury Stocks	- 583.2	- 232.1	351.1	The Allotment of share : +196.7 Cancellation of treasury stocks : +170.0 Share buy-back : Δ15.7
	Others	74.5	64.8	-9.7	
	Total	3,047.2	3,073.3	26.1	
	Total Liabilities and Shareholder's Equity	3,411.8	3,414.3	2.5	

Sales Changes by Application (round number) 【Consolidated Basis】

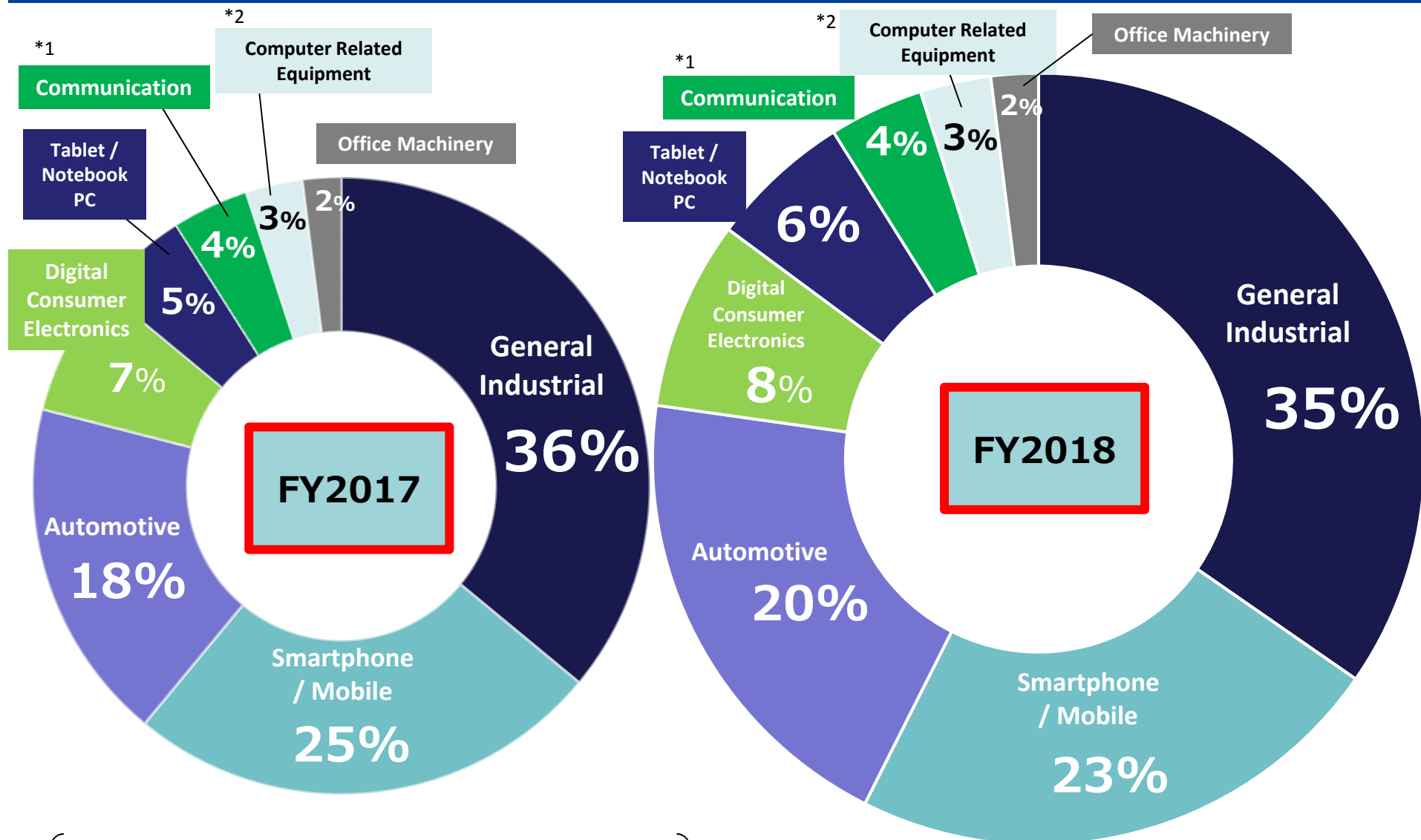


As this is in round number, please be noted that some ratio difference may occur. Thank you for your understanding.

*1 Communication - Smartphone / Mobile Phone not included

*2 Computer Related Equipment – Tablet/Notebook PC not included.

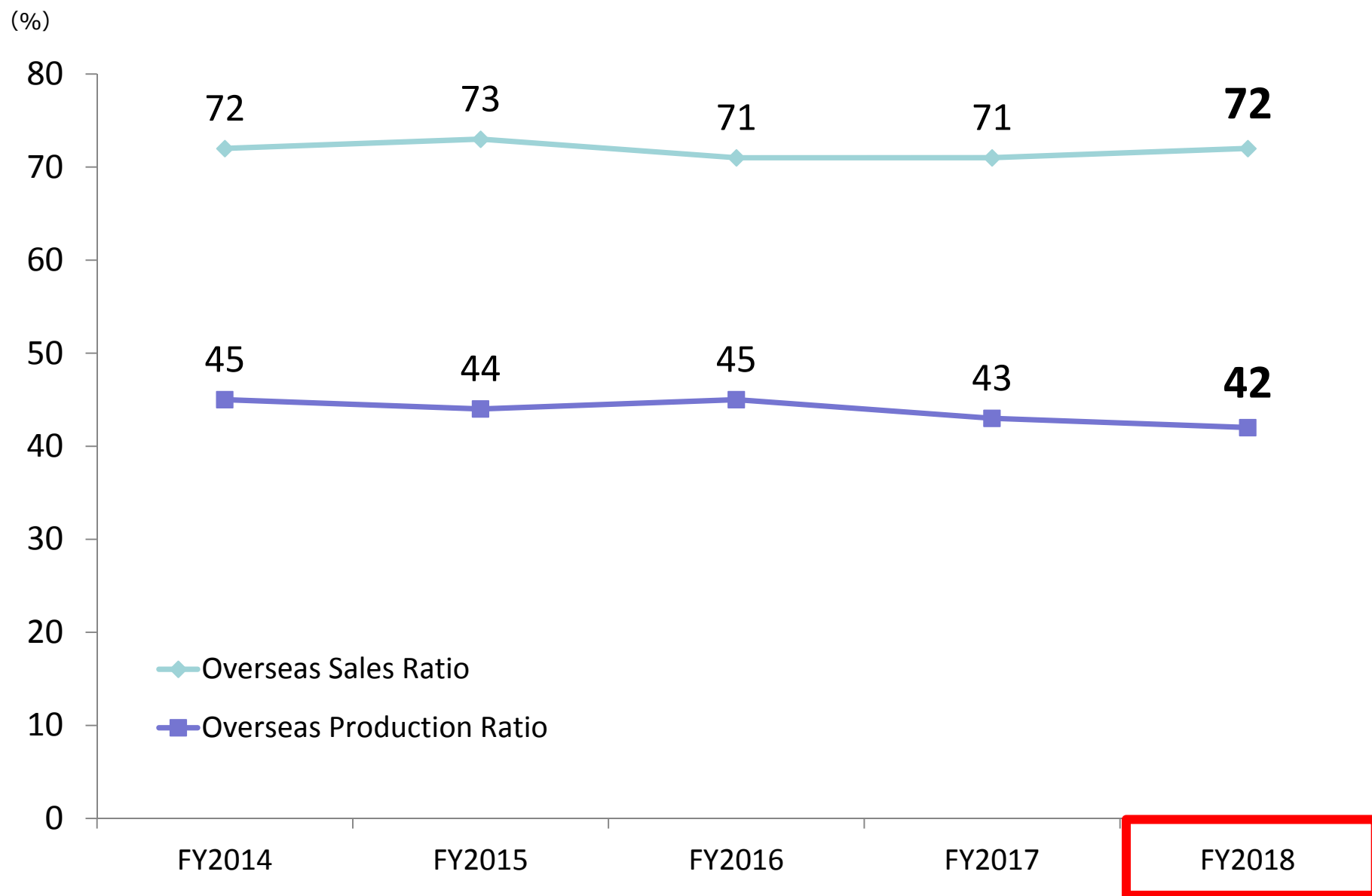
Sales by Application (round number) (Consolidated Basis)



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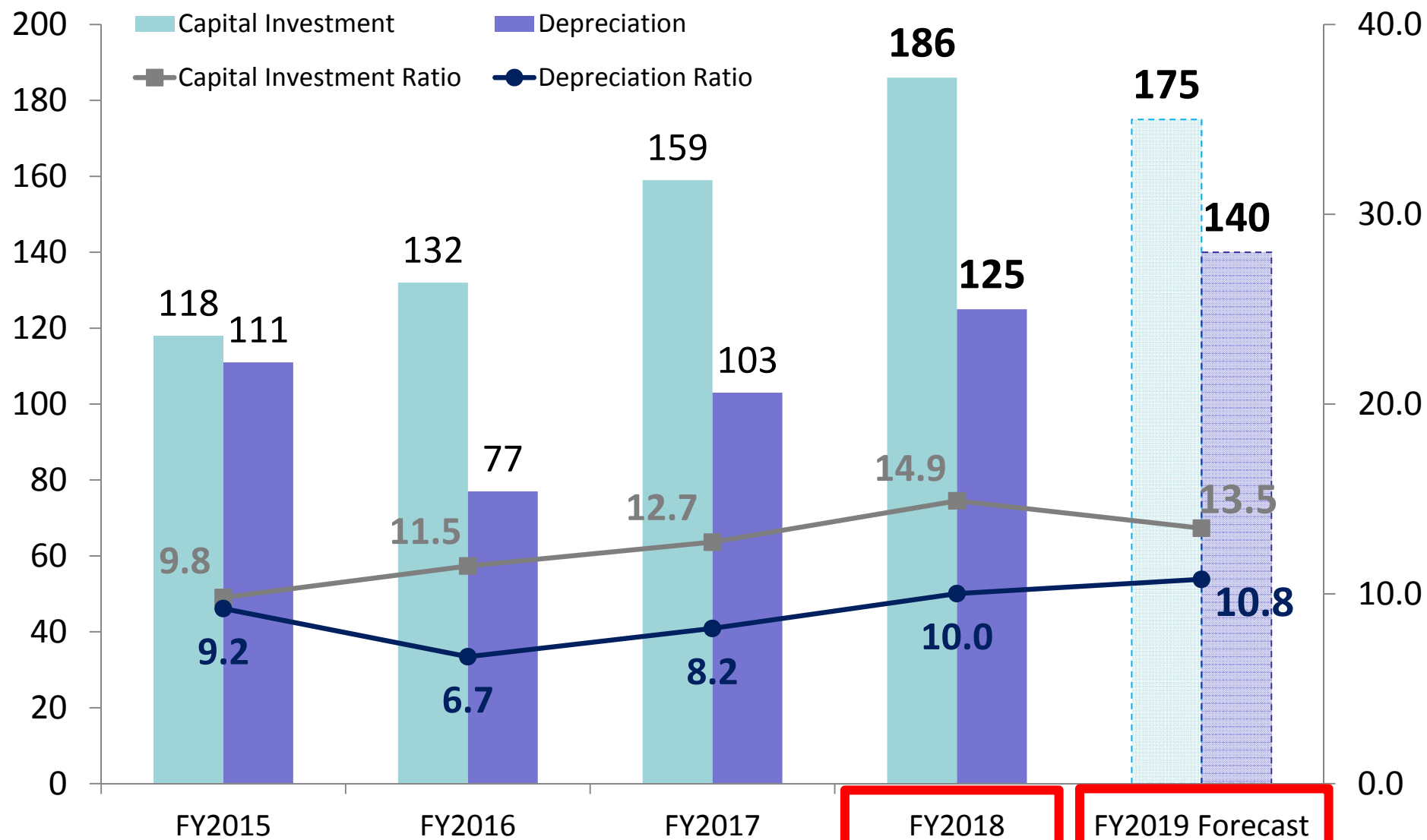
Overseas Production and Sales Ratio



Capital Investment and Depreciation Change (Consolidated Basis)

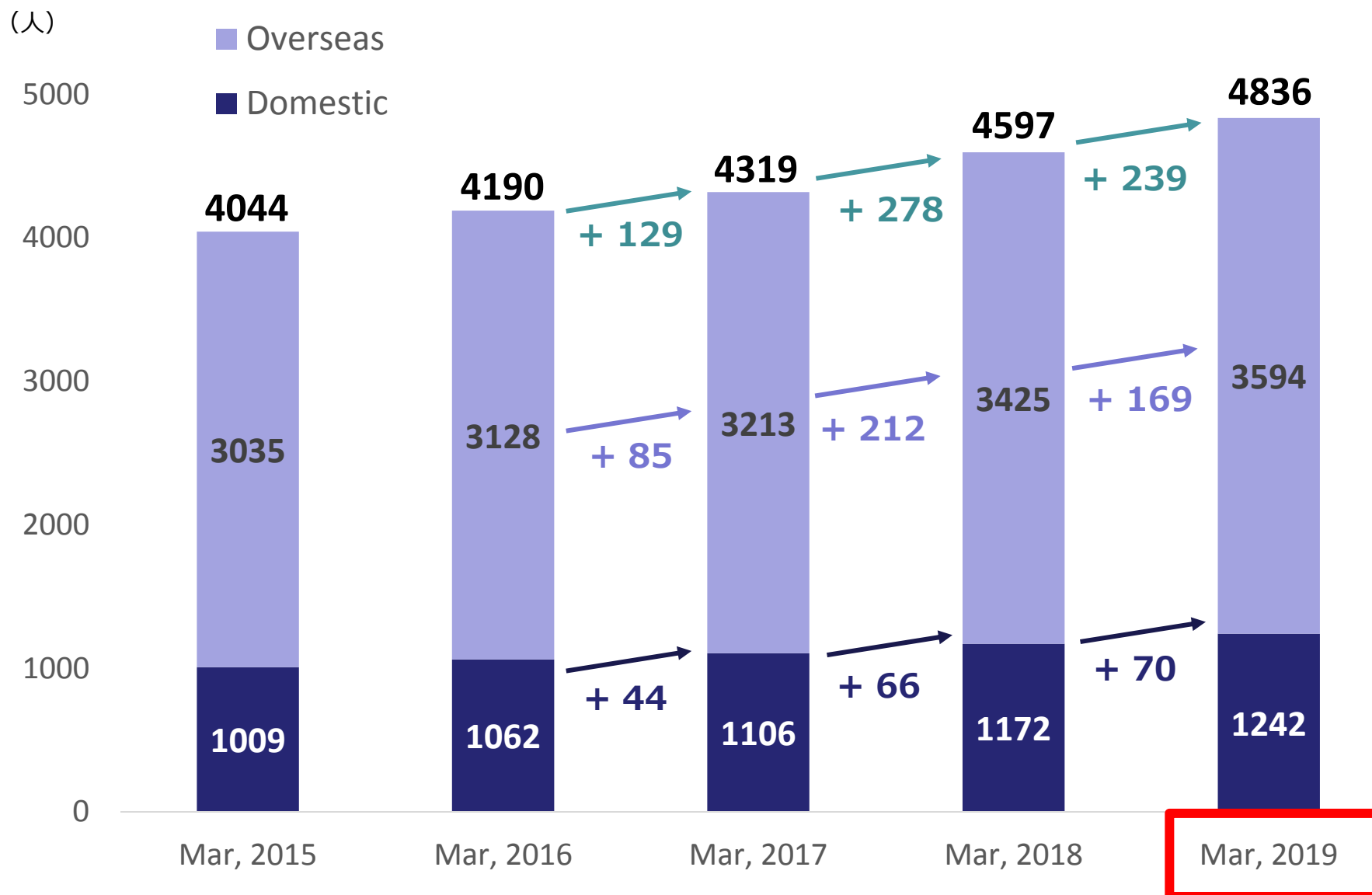
(hundred millions of Yen)

(%)

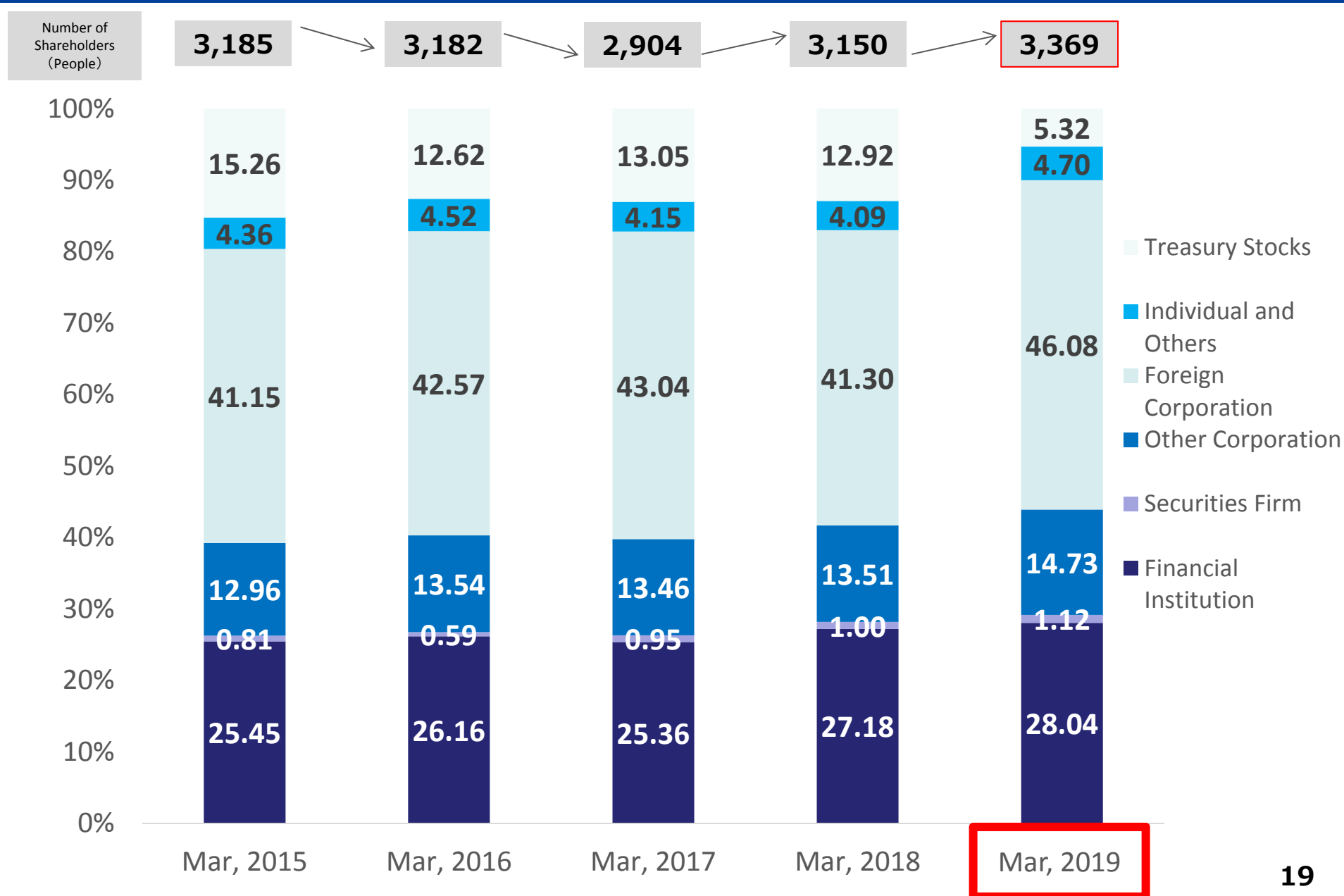


(*Excluded: Investment in land, building, software)

Number of Employees (Financial Report Basis)



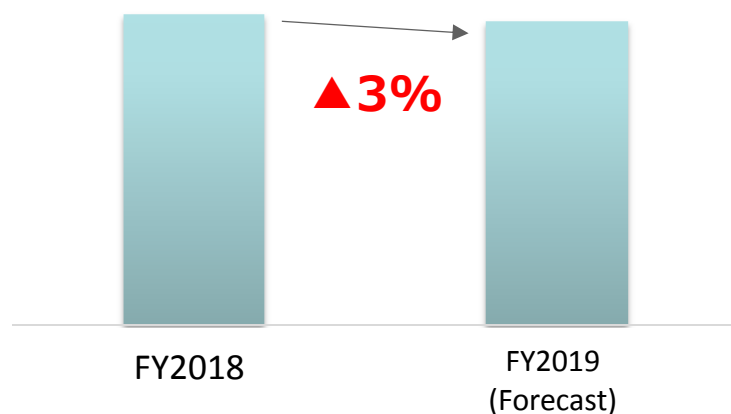
Distribution of Shareholders



FY2019 Attitude to each applications (Forecast)

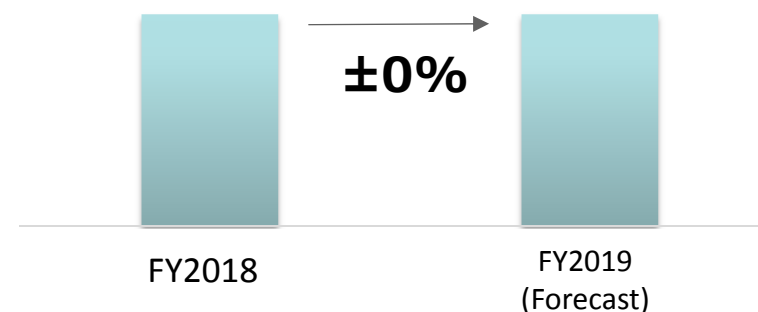
Expect the sales growth in Automotive

General Industrial



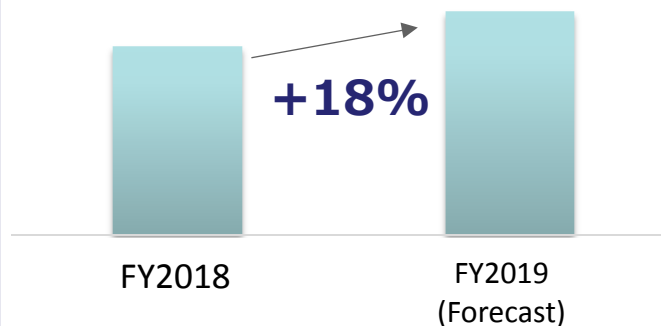
It is expected that sales from 2nd half of FY2019 will be more than FY2018

Smartphone / Mobile



We will continuously receive the demand for high-tech smartphone (5G).

Automotive



Strive more to respond our customer's needs such as EV and automatic driving.

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	<table border="1"> <thead> <tr> <th>Currency Rate</th> <th>FY2018 Actual</th> <th>FY2019 Forecast</th> </tr> </thead> <tbody> <tr> <td>1US\$</td> <td>110.91 yen</td> <td>110.00 yen</td> </tr> <tr> <td>1€</td> <td>128.41 yen</td> <td>125.00 yen</td> </tr> <tr> <td>100won</td> <td>9.98 yen</td> <td>9.80 yen</td> </tr> </tbody> </table>				Currency Rate	FY2018 Actual	FY2019 Forecast	1US\$	110.91 yen	110.00 yen	1€	128.41 yen	125.00 yen	100won	9.98 yen	9.80 yen
Currency Rate	FY2018 Actual	FY2019 Forecast																		
1US\$	110.91 yen	110.00 yen																		
1€	128.41 yen	125.00 yen																		
100won	9.98 yen	9.80 yen																		
Dividend Per Share	120 yen	240 yen	120 yen	240 yen																
Consolidated Dividend Payout Ratio	—	49.0%	—	47.3%																

Change in Personnel (On and After Jun 27th, 2019)

Directors

President and Representative Director Kazunori Ishii (Reappointed)

Senior Managing Director, Group President, Engineering Group and in charge of Production Group Mitsuo Nakamura (Promoted)

Director, Group President, Production Group Yukio Kiriya (Reappointed)

Director, Deputy Group President, Engineering Group and Division General Manager, Automotive Division Hiroaki Okano (Reappointed)

Director, Group President, Administration Group Hiroshi Fukumoto (Newly Appointed)

Director, Group President, Sales & Marketing Group and Division General Manager, International Business Division Hiroshi Satoh (Newly Appointed)

Director, President, Hirose Korea Co., LTD. Sang-Yeob LEE (Reappointed)

Outside Director Kensuke Hotta (Reappointed)

Outside Director Tetsuji Motonaga (Reappointed)

Auditor

Full-time Corporate Auditor Yoshikazu Chiba

Outside Corporate Auditor Terukazu Sugishima

Outside Corporate Auditor Kentaro Miura

Shareholder return and ROE

1. Historical performance of shareholder return

- (1) Dividend payout ratio : has continuously exceeded 30% since FY2008
- (2) Share buyback : carried out a huge amount of share buyback in FY2007, FY2008, FY2009 and FY2015
- (3) Special dividend : paid in FY2017 to celebrate our 80th anniversary
- (4) The allotment of share without contribution : with ratio of 0.05 common share per each common share in FY2015 and FY2018.
- (5) Cancellation of treasury stocks : issued the policy that would cancel any treasury stocks that exceeded 5% of our total issued stocks. (January, 2018)

We also announced below as our policy for next 5 years in April, 2016;

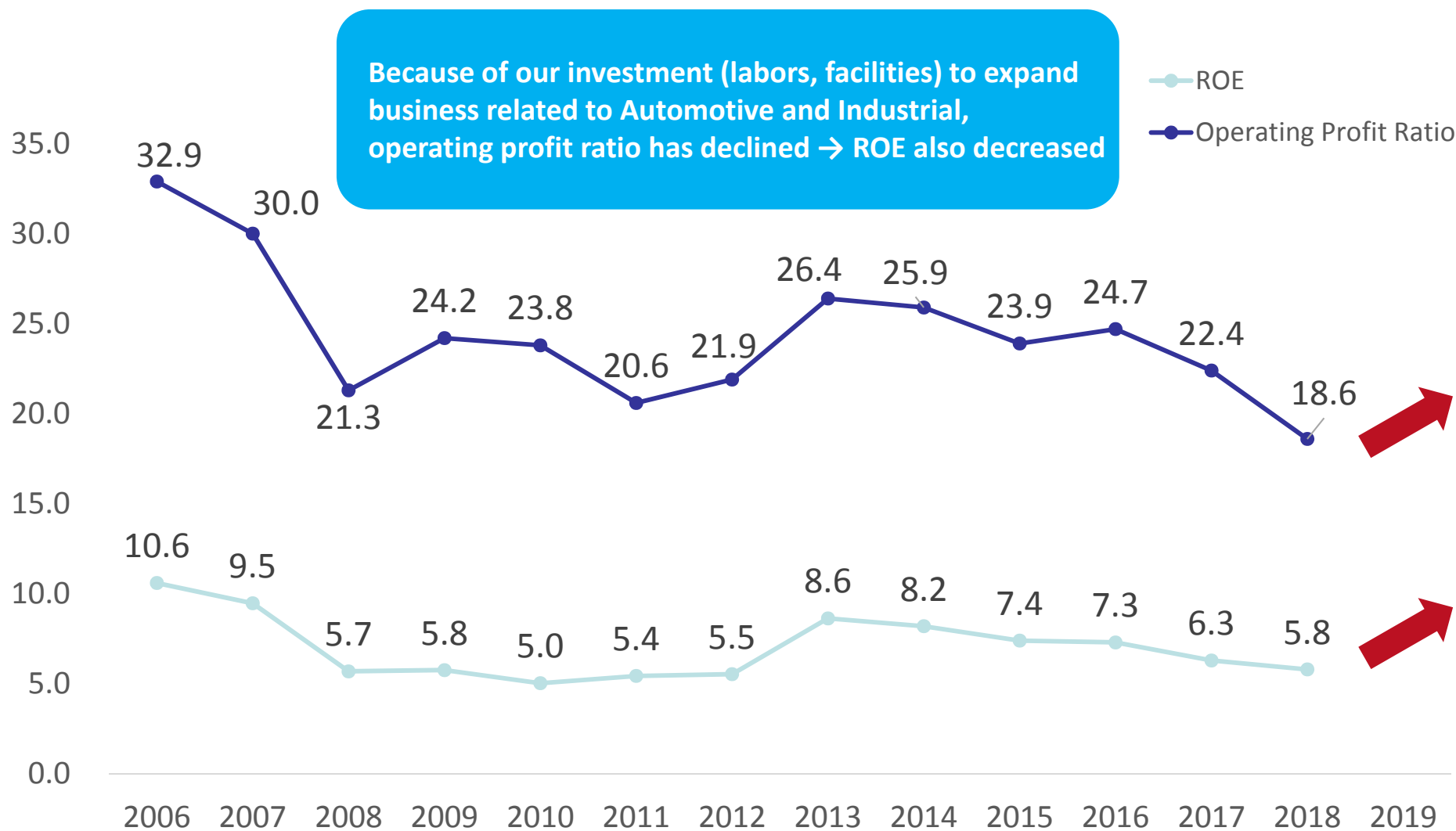
(1) Dividend payout ratio : around 40%

(2) Total shareholder return ratio : more than 62.5%

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Dividend Per Share	100Yen	125Yen	160Yen	130Yen	120Yen	150Yen	130Yen	140Yen	200Yen	230Yen	240Yen	240Yen	480Yen	240Yen
Dividend Payout Ratio (Dividend/Net Profit)	17%	20%	27%	37%	33%	45%	36%	36%	31%	34%	40%	39%	88%	49%
Shareholder Return Ratio ([Dividend+Share Buyback Amount]/Net Profit)	43%	20%	93%	111%	108%	69%	77%	42%	61%	47%	86%	52%	88%	58%

“Shareholder return” has been one of our main business challenge. We believe that our shareholders and investors evaluate our shareholder return plan to a certain degree.

2. The change in operating profit and ROE



After FY2019, improve operating profit ratio → increase in ROE

3. Future shareholder return policy

Our top priority issue in FY2019

To improve our profitability (operating profit ratio)

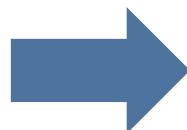
In FY2019, we will carry out both of our top priority issue and shareholder return policy.

Shareholder return policy

Dividend payout ratio : 40%

To carry out share buyback and cancellation of treasury stocks

We would like to determine the capital requirements for future prospective of FCF, M&A, capital investment, share buyback and so on within FY2019.



After the situation will be clear, we will announce next medium-term shareholder return policy in May, 2020.

HRS HIROSE
ELECTRIC
CO.,LTD.