

HIROSE ELECTRIC CO., LTD

Financial Results Briefing for the Fiscal Year Ending March 31 2021

Q&A Summary

Q1 :

Sales of connectors for smartphones seem to have declined considerably from Q3 to Q4. Please tell me the reason. Also, please explain the background behind your forecast for a decline in smartphone-related sales for the fiscal year ending March 2022.

A1 :

As for the decline from Q3 to Q4, this was mainly due to seasonal factor as usual. There was no major problem. The sales for smartphone in FY2021 is expected to slightly decrease compared to the previous fiscal year. This is because progress on the 5G infrastructure side has been a little slower than we had originally expected and we expect the demand will be flat in FY2021. We are not thinking negatively about smartphone market.

Q2 :

I would like to know the direction of shareholder return policy after JPY 40 billion share buyback. Do you plan to conduct another gratis share allocation or a stock split?

A2 :

A gratis allocation will be one of our options. In addition, we are planning to introduce a performance-linked stock compensation system for executives, and we may use the Company's shares in this way. We are not considering a stock split at this time.

Q3 :

The operating profit in FY2020.Q4 appears to be somewhat small. Was there any special factor?

A3 :

There was no special factor, but there were several hundred millions of yen that undergone accounting treatment toward the end of the fiscal year. This is something that we have to deal with every year.

Q4 :

Could you tell us more about the areas you are targeting with strategic investment?

A4 :

We would like to use our cash strategically to contribute to technological development, manufacturing, and business expansion. And we will consider whether we choose M&A, capital injection or other measures.

Q5 :

I would like to ask you the strength of your commitment to an ROE level of 8% or more, and to what extent you have a strong will to secure the level as a company.

A5 :

We have the strong will to maintain ROE of 8% or more. I think you can understand that we are strongly committed to it.

Q6 :

I heard that you have positioned FY2021 to FY2022 as a period to strengthen the foundation in the medium and long-term growth strategy. I cannot wipe out the impression that the period of full-fledged growth has been delayed. What do you think is the cause of this?

A6 :

The cause lies in the industrial and automotive applications. It takes longer than expected for the markets for the tow of the three pillars to recover. It takes longer to strengthen relationships, enrich the selection of products and implement a more proactive strategy. For example, in the global industrial machinery market, there are case where it takes five to seven years from the start of the approach to the final stage of reaping profits. I think this situation is the main reason why we are lagging behind. At present, however, I believe that we have almost established the foundation. So if we accelerate the implementation further, we will be able to recover the lost time.

Q7 :

In the medium-term plan, the ratio of automotive will increase considerably. Please tell us what exactly will increase.

A7 :

Regarding automotive market, this is where HIROSE has a strong advantage in that a major changing point is coming. Therefore, we plan to increase the composition ratio by catching this changing point. There will be a need for new proposals that cannot be handled by existing technologies. I believe that HIROSE's strength lies in its ability to make cross-sectoral proposals, and I believe that we will be able to leverage this strength to grow further.

Q8 :

Please explain the quantitative aspects of how you set the ROE target of 8% and the size of share buyback of JPY40 billion.

A8 :

We recognize that the cost of shareholders' equity is in the range of 5.8% to 6.4%. So we cannot say that we have created shareholder value unless ROE is above that range. Therefore, we have decided to set the target of 8%. As the reason for setting the JPY40 billion share buyback, we have to reduce our equity capital by JPY50 billion or more while increasing profitability at the same time, in order to raise our ROE. The share buyback amount is the result of considering both.

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.