Hirose Electric Business Results for FY2020

Business Results for FY2020

May 7, 2021

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.

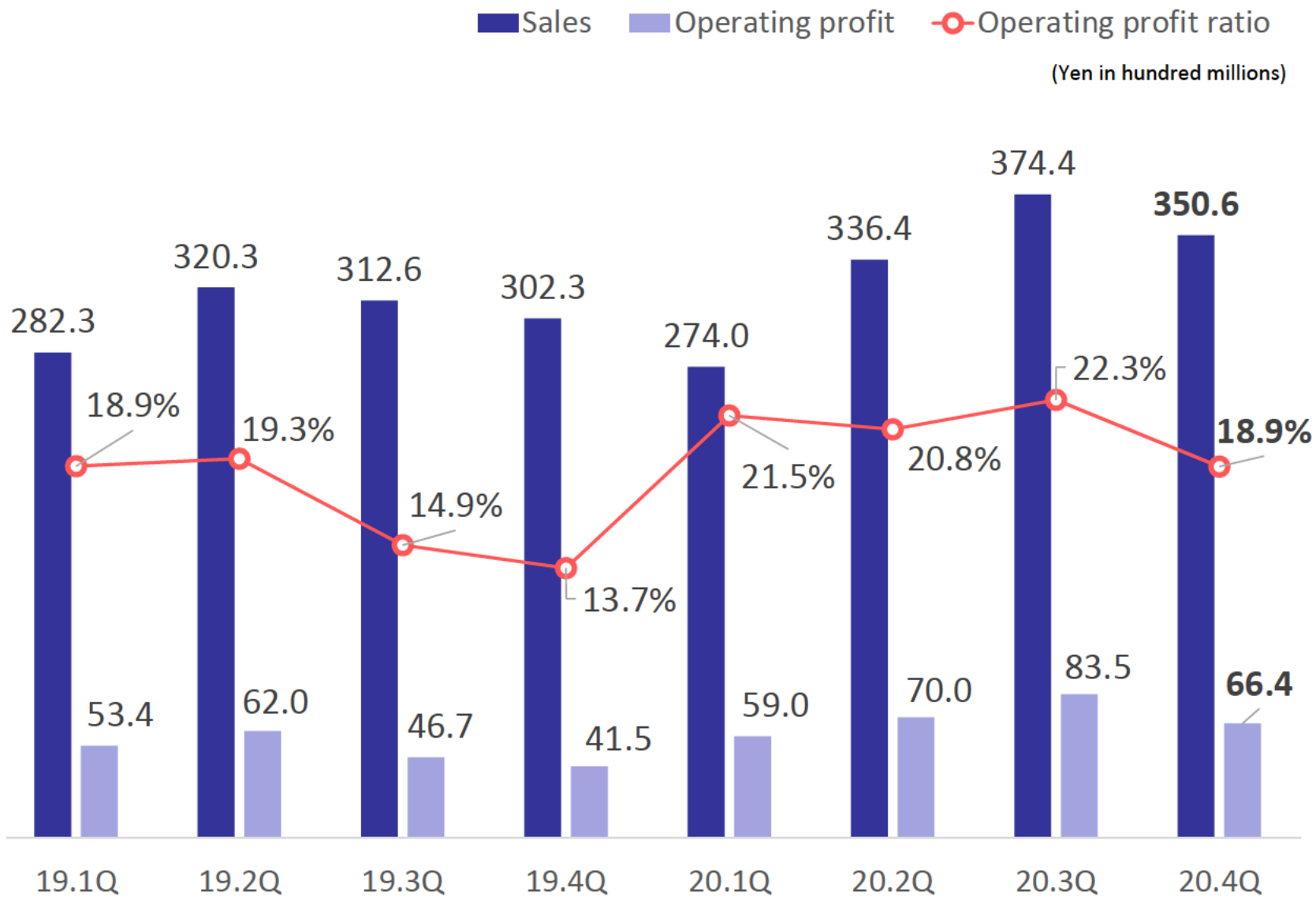
Summary of the business results (FY2020 From April, 2020 to March, 2021)

■ In FY2020, the sales for consumer and mobile equipment increased and the sales for automotive has been recovering from the second half. As a result, **orders and sales of FY2020 was record high**. Sales increased by 9.7% compared with the previous fiscal year, operating profit plus 37.0% and operating profit ratio was 20.9%.

(Yen in hundred millions)

	FY2019			FY2020			YoY
	1H 2019. Apr-Sep	2H 2019. Oct—2020.Mar	FY2019 2019.Apr-2020.Mar	1H 2020.Apr-Sep	2H 2020.Oct-2021.Mar	FY2020 2020.Apr-2021.Mar	FY2020 / FY2019
Orders	623.3	641.3	**1,264.6**	646.8	777.0	**1,423.8**	+12.6%
Sales	602.7	614.9	**1,217.6**	610.4	725.0	**1,335.4**	+9.7%
Operating profit	115.3	88.3	**203.6**	128.9	149.9	**278.8**	+37.0%
Operating profit ratio	19.1%	14.4%	**16.7%**	21.1%	20.7%	**20.9%**	+4.2pt

Changes in sales and operating profit （FY2019.1Q-FY2020.4Q / Consolidated basis）



Business Results for FY2020

(Yen in hundred millions)	FY2019 (FY ended Mar 31, 2020)	FY2020 (As of Feb 3 2021) Forecast	FY2020 (FY ended Mar 31, 2021)	Increase / Decrease (YoY)	Increase / Decrease Ratio (YoY)
Sales	**1,217.6**	**1,300.0**	**1,335.4**	**+117.7**	**+9.7%**
COGS Ratio	57.8%	58.2%	57.6%	▲0.2	
SGA Ratio	25.0%	22.7%	22.6%	▲2.4	
Operating Profit	**203.6**	**260.0**	**278.8**	**+75.3**	**+37.0%**
(%)	16.7%	20.0%	20.9%	+4.2	
Earnings before income tax	**212.1**	**260.0**	**283.3**	**+71.3**	**+33.6%**
(%)	17.4%	20.0%	21.2%	+3.8	
Net profit	**153.1**	**180.0**	**199.2**	**+46.1**	**+30.1%**
(%)	12.6%	13.8%	14.9%	+2.3	
Total Assets	**3,426.4**		**3,705.0**		
Shareholder's Equity Ratio	**89.3%**		**88.0%**		
Income Per Share	**420.39 yen**		**549.10 yen**		

	FY2019	FY2020
1US$	108.74 yen	**106.06 yen**
1€	120.82 yen	**123.70 yen**
100 won	9.21 yen	**9.17 yen**

FY2020 Major Changes

(Yen in hundred millions)

Sales

117.7 hundred million yen Increased
(1,217.6 → 1,335.4)

Non consolidated Hirose: +85.5
Subsidiaries: +32.2

COGS Ratio

0.2pt Improved
(57.8% → 57.6%)

Depreciation Ratio: 10.5% → **9.9%**
Labor-cost Ratio: 6.8% → **6.8%**

SGA Ratio

2.4pt Improved
(25.0% → 22.6%)

304.7 → 301.9 (Decreased by 2.8)

Financial revenue / expense

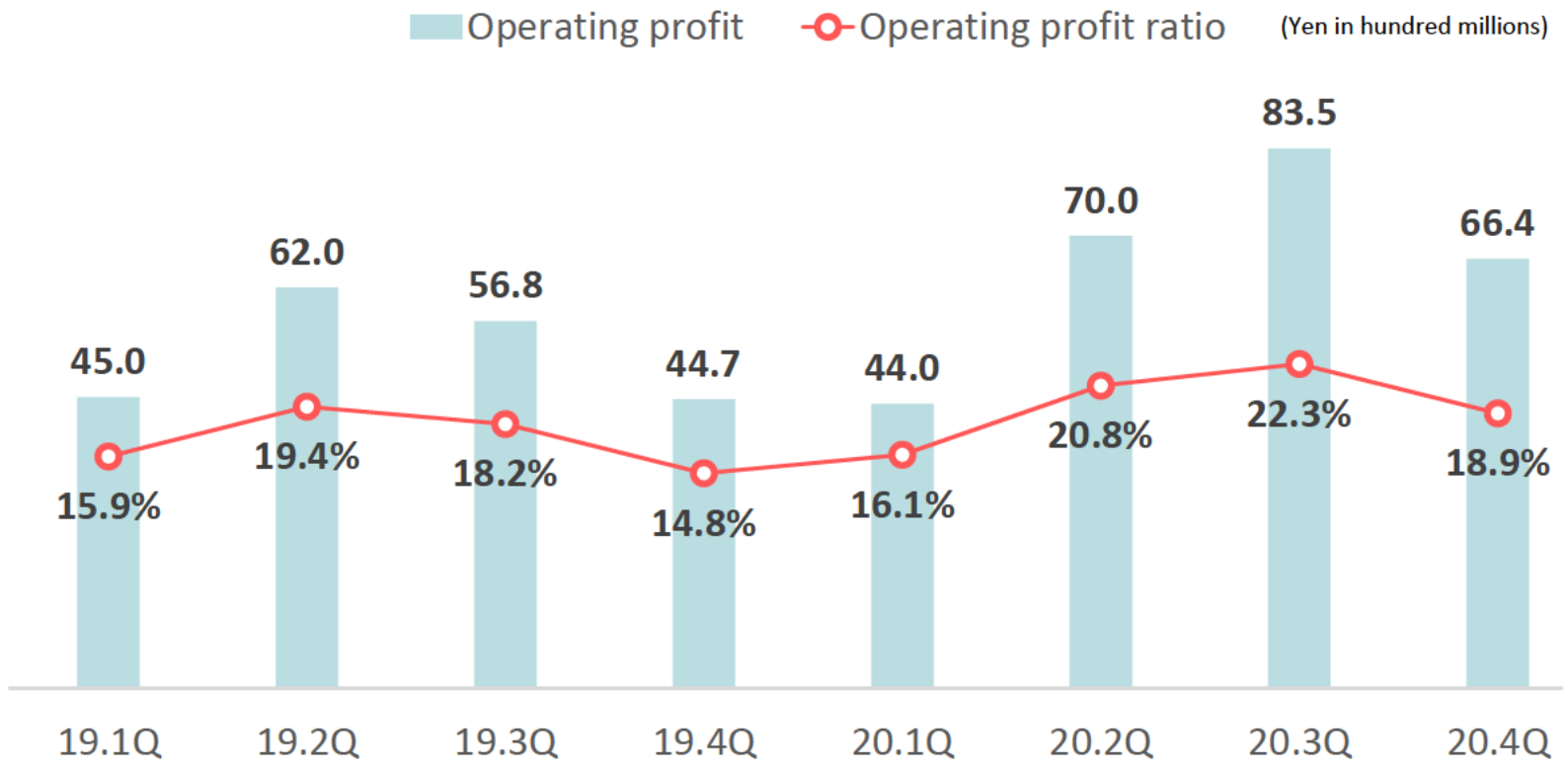
4.0 hundred million yen Deteriorated
(+8.5 → +4.5)

Exchange Loss: -2.5 → -4.4

FY2020 YoY Variation Analysis

(Yen in hundred millions)	Sales	Operating Profit	(%)	Earnings before income tax	(%)
FY2019 Actual	**1,217.6**	**203.6**	**16.7%**	**212.1**	**17.4%**
Exchange rate	-8.6	-9.1		-11.0	
Depreciation cost increase		-8.6		-8.6	
Labor cost increase		-12.5		-12.5	
Increase in freightage and packing expenses		-8.5		-8.5	
Increase in the product	126.3	73.1		71.1	
Gain on sale of land		-8.4		-8.4	
Insurance income		15.0		15.0	
Decrease in travel and overseas travel expenses		7.8		7.8	
Loss due to flood damages in Koriyama plant		13.3		13.3	
Loss on retirement and sale of fixed asset		13.2		13.2	
Total amount of changes	**117.8**	**75.3**		**71.3**	
FY2020 Actual	***1,335.4***	***278.8***	***20.9%***	***283.3***	***21.2%***

Changes in operating profit excluding temporary factors (FY2019.1Q-FY2020.4Q)



(Yen in hundred millions)

	19.1Q	19.2Q	19.3Q	19.4Q	20.1Q	20.2Q	20.3Q	20.4Q
Operating Profit (Financial Settlement)	53.4	62.0	46.7	41.5	59.0	70.0	83.5	66.4
	Gain on sale of land −8.4		Expense for flood damages in Koriyama + 10.1	Expense for flood damages in Koriyama + 3.2	Insurance money for flood damages in Koriyama −15.0			
Operating Profit excluding temporary factors	**45.0**	**62.0**	**56.8**	**44.7**	**44.0**	**70.0**	**83.5**	**66.4**

Consolidated Balance Sheet

(Yen in hundred millions)

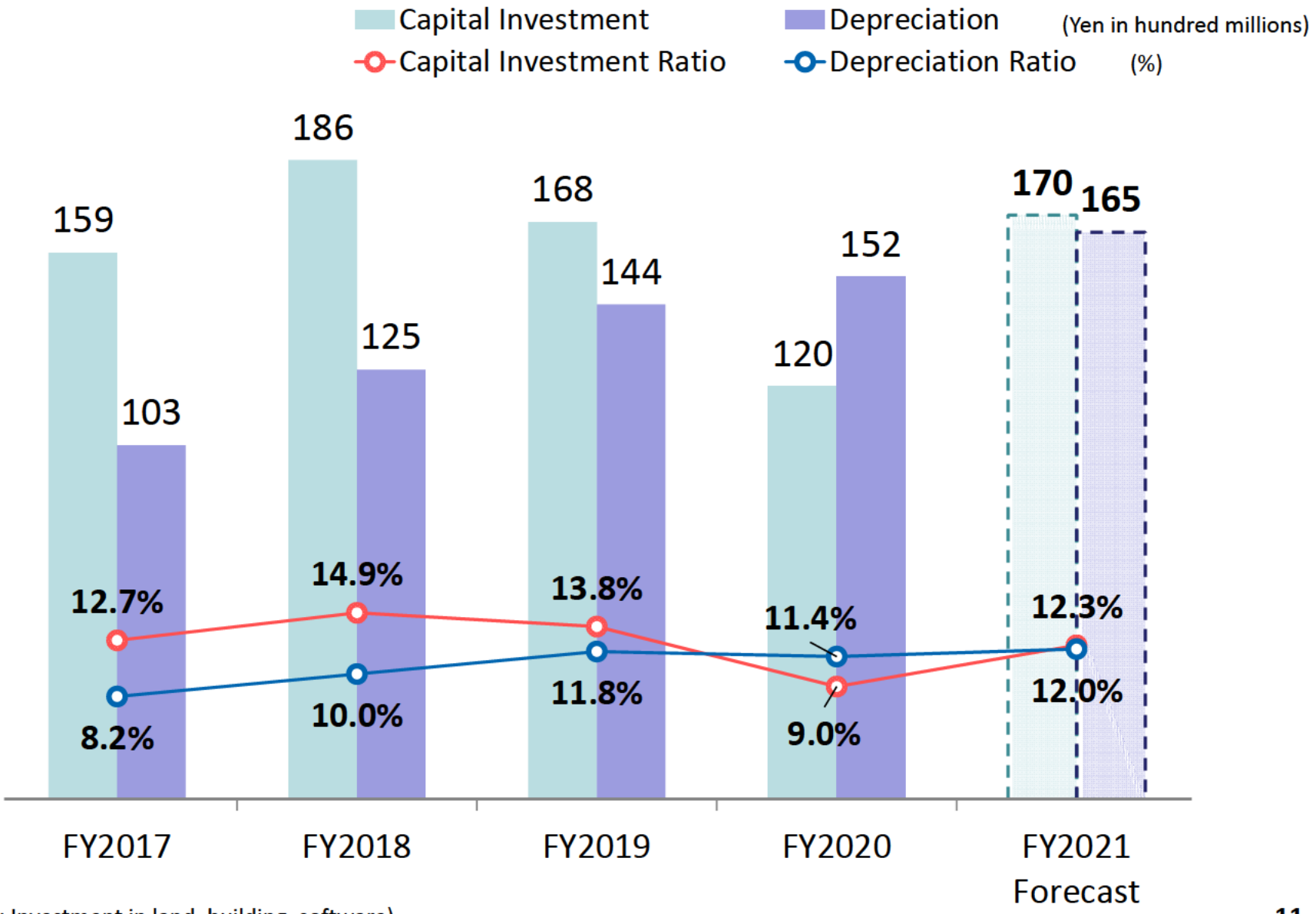
	Account	Mar 31, 2020	Mar 31, 2021	Increase / Decrease	Remark
Assets	Cash and cash equivalents	**505.6**	**578.4**	**72.8**	**Mainly because expenditure for capital investment decreased and headquarters did not do interim payment**
	Trade and other receivables	**304.4**	**366.2**	**61.8**	Due to the sales increase in March, 2021 compared to March, 2020, trade receivables increased by 43.3
	Inventories	**145.1**	**169.2**	**24.0**	To respond in increasing demand
	Other financial assets	**1,706.8**	**1,801.9**	**95.1**	Securities (bonds, etc) +83.0
	Tangible fixed assets	**615.4**	**611.8**	**-3.6**	
	Right-of-use asset	**44.8**	**43.6**	**-1.2**	
	Others	**104.3**	**134.0**	**29.7**	**Increase in asset related to retirement benefit +12.2** **Increased investment in non-current asset +7.8**
	Total Assets	**3,426.4**	**3,705.0**	**278.6**	
	Total of cash in bank	**1,674.5**	**1,776.7**	**102.2**	

Consolidated Balance Sheet

(Yen in hundred millions)

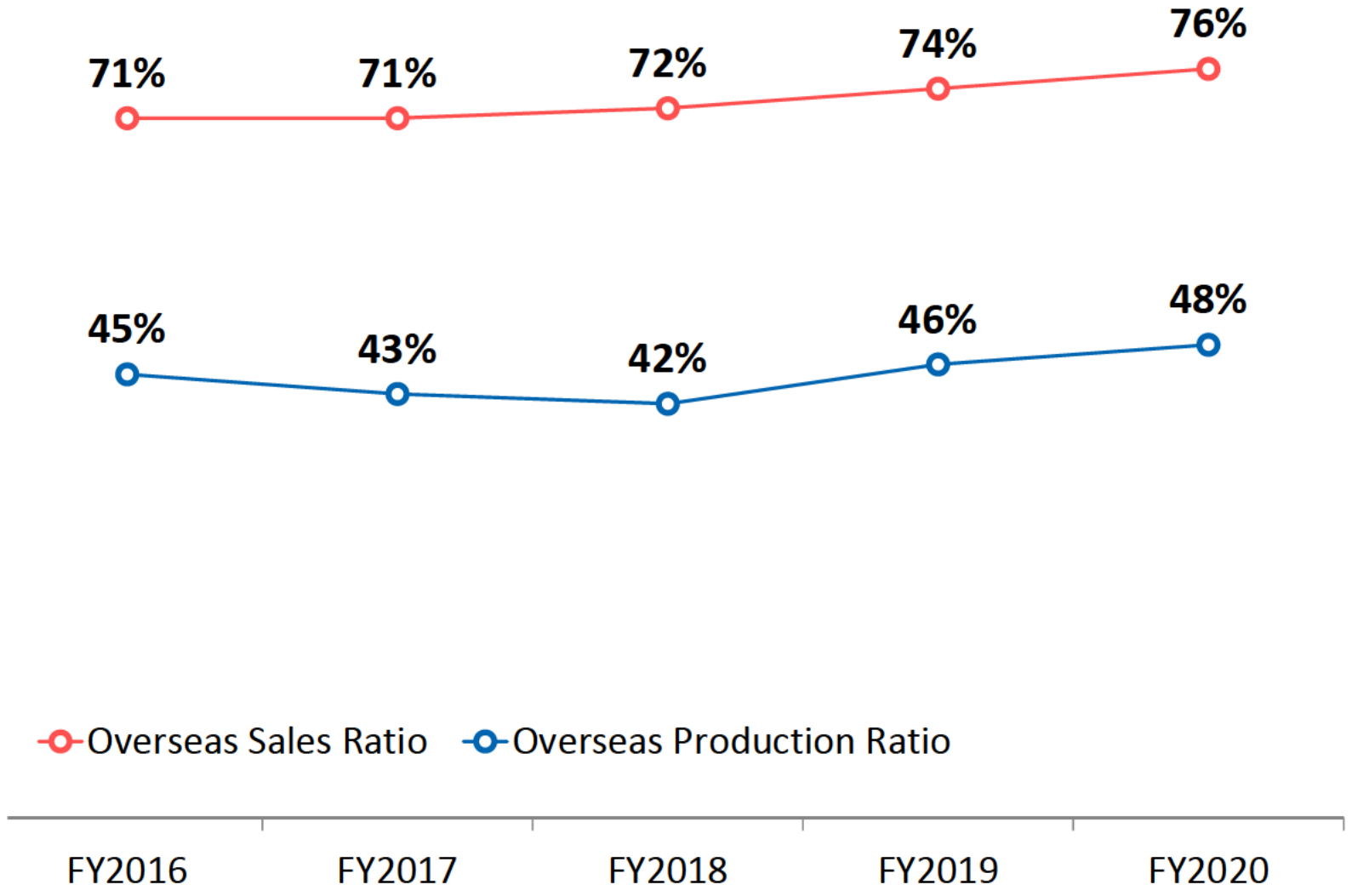
	Account	Mar 31, 2020	Mar 31,2021	Increase / Decrease	Remark
Liabilities	Payables and other debt	167.5	195.1	27.6	Accounts payable increased because of increase in current production
	Lease liabilities	44.9	44.0	-0.9	
	Income Taxes Payable	29.6	65.3	35.7	Temporarily increased because we were exempt from interim payment due to covid-19
	Others	123.0	139.6	16.6	Due to increase in valuation of investment securities, differed tax burden increased by 10.4
	Total	365.0	444.1	79.1	
Shareholder's Equity	Capital stock and Capital surplus	207.0	206.3	-0.6	
	Retained Earnings	3,083.4	3,172.6	89.2	Net profit +199.2 Dividend △87.0 Cancellation of treasury stocks △23.1
	Treasury Stocks	-244.6	-218.7	25.8	Cancellation of treasury stock +23.8 Disposal of treasury stock +2.0
	Others	15.6	100.7	85.1	Translation adjustment +75, others (because of weak yen)
	Total	3,061.4	3,260.9	199.5	
	Total Liabilities and Shareholder's Equity	3,426.4	3,705.0	278.6	

Changes in Capital Investment and Depreciation

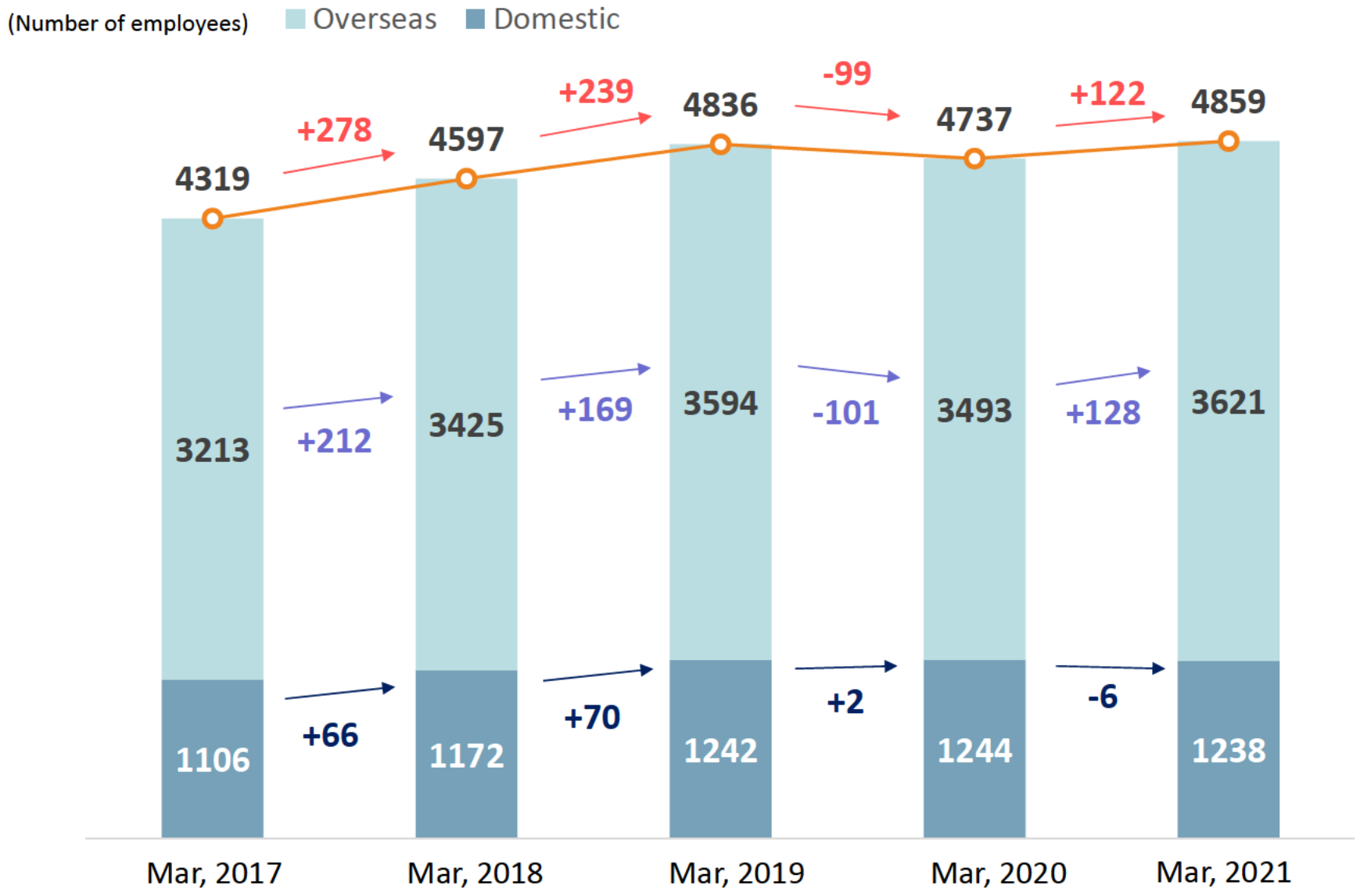


(*Excluded: Investment in land, building, software)

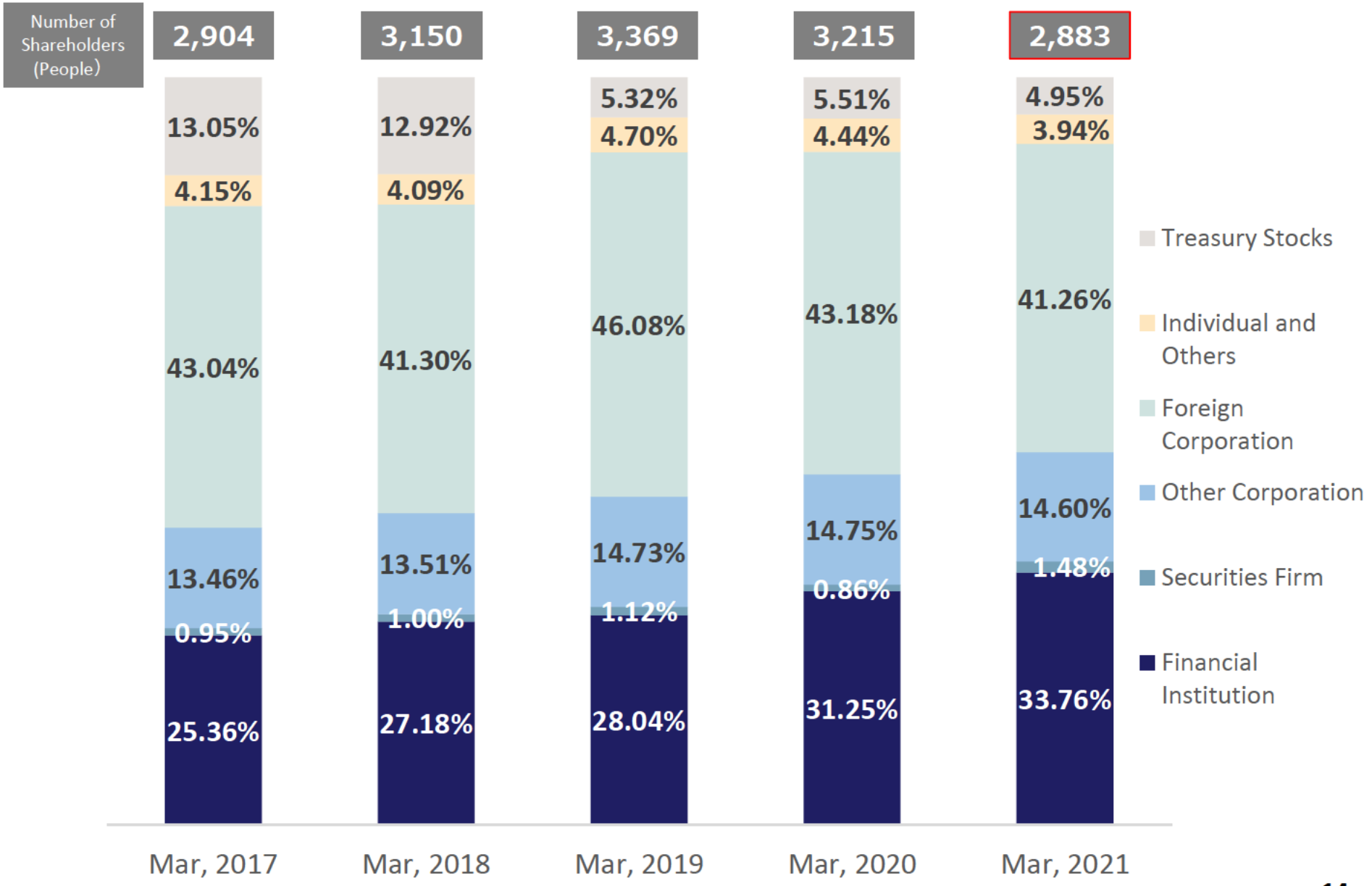
Overseas production and sales ratio



Number of Employees (Financial Report Basis)



Distribution of Shareholders

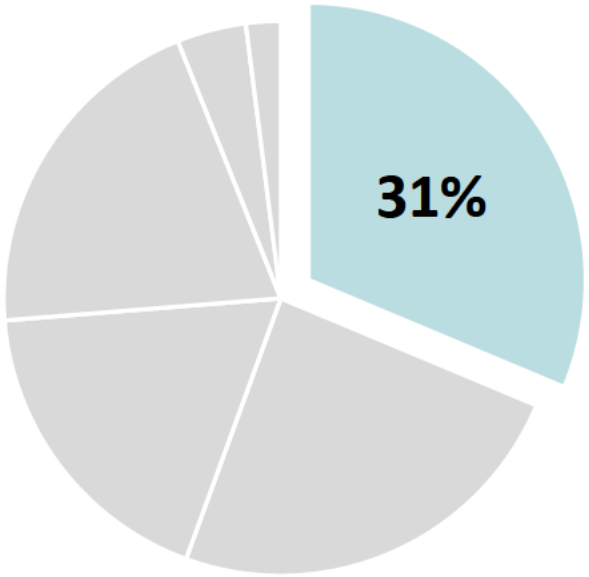


Sales by Application_General Industrial

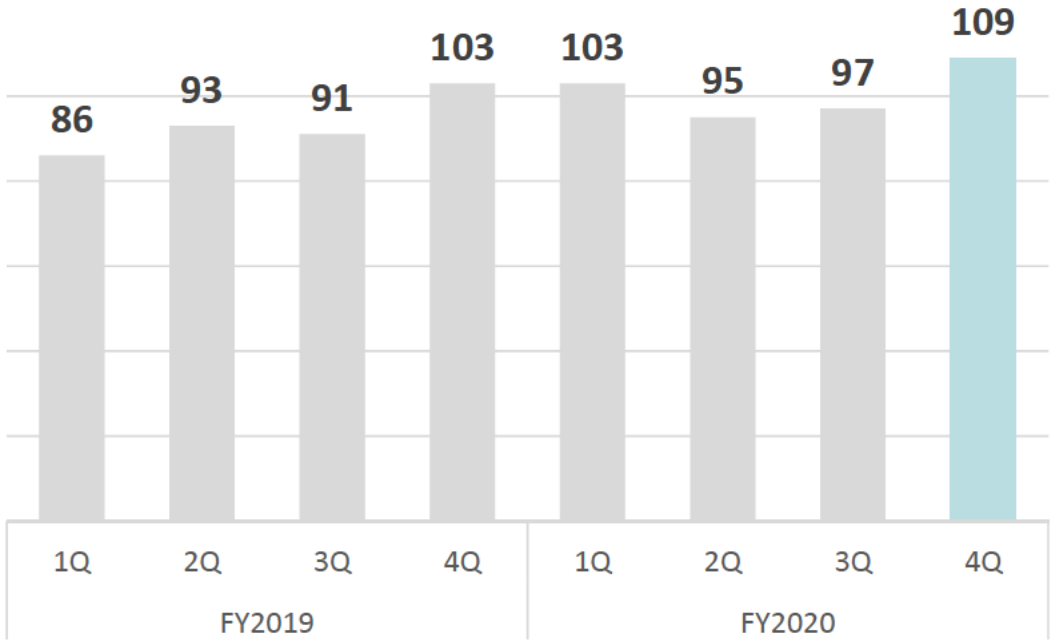
(Yen in hundred millions)

	FY2019				FY2020				YoY
	1H	3Q	4Q	FY19	1H	3Q	4Q	FY20	FY2020 / FY2019
Sales	179	91	103	373	198	97	**109**	**404**	**+8%**

● **FY2020 Composition ratio**



● **Changes in quarterly sales**



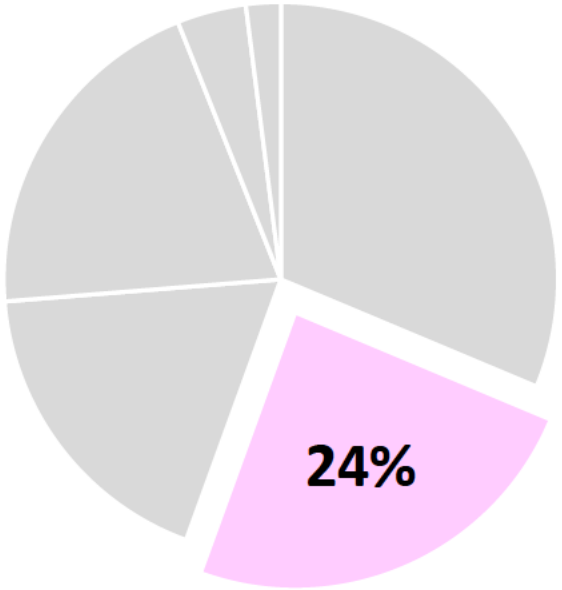
■ The recovery of demand related FA market supported our sales and the overall sales stay strong.

Sales by Application_Smartphone

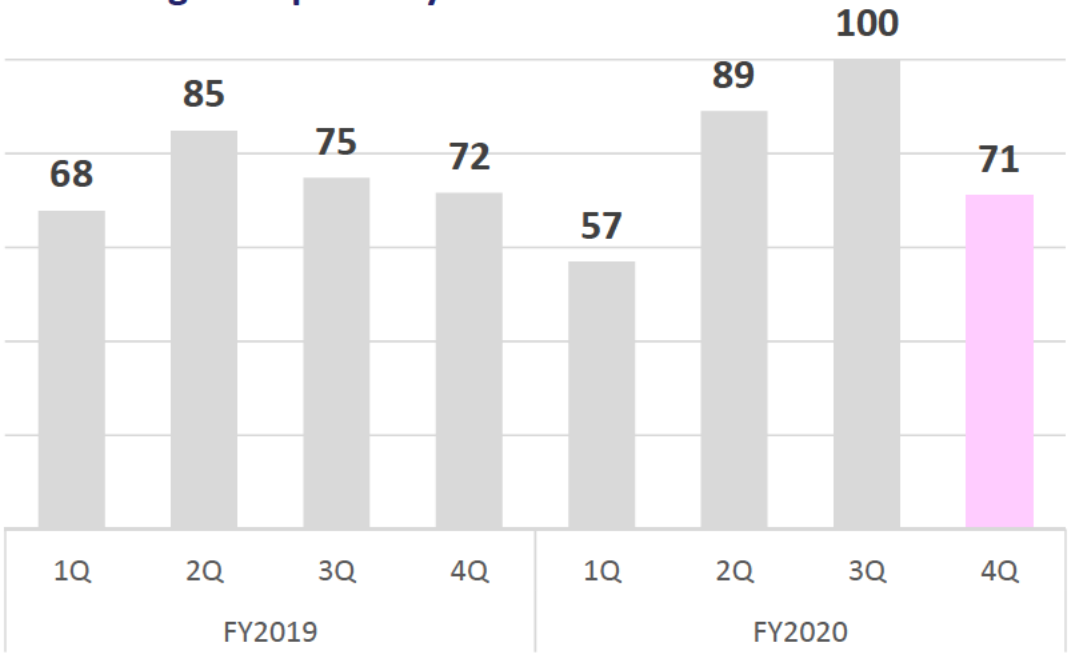
(Yen in hundred millions)

	FY2019				FY2020				YoY
	1H	3Q	4Q	FY19	1H	3Q	4Q	FY20	FY2020 / FY2019
Sales	153	75	72	299	146	100	**71**	**317**	**+6%**

● **FY2020 Composition ratio**



● **Changes in quarterly sales**



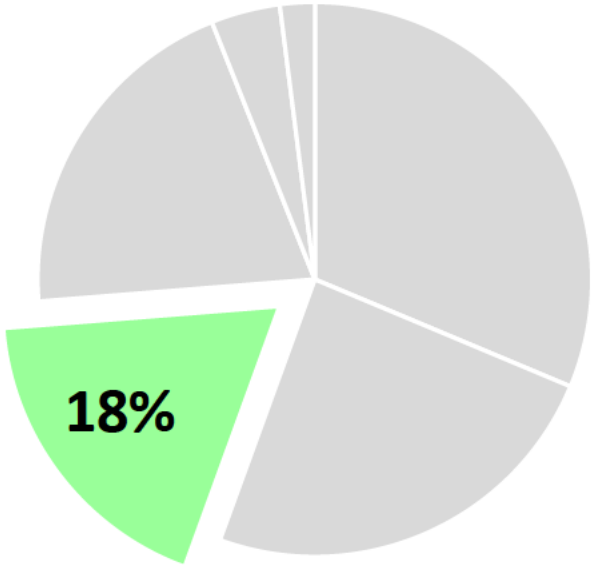
■ Higher specification for new models compatible 5G contributed to our sales and annual sales in smartphone increased by 6% compared with the previous fiscal year.

Sales by Application_Automotive/Mobility-related

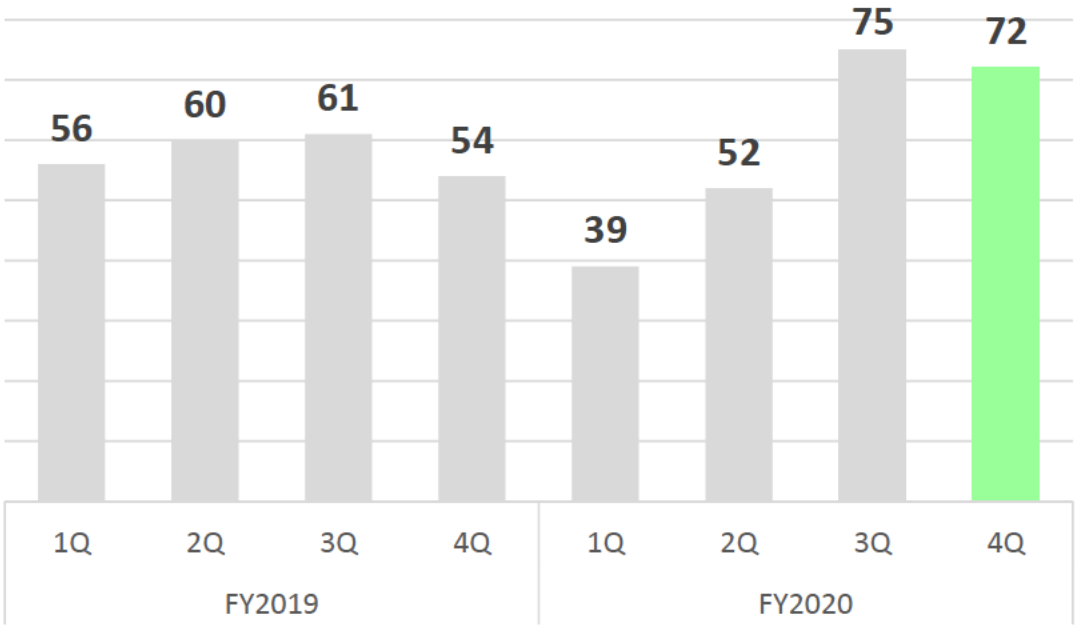
(Yen in hundred millions)

	FY2019				FY2020				YoY
	1H	3Q	4Q	FY19	1H	3Q	4Q	FY20	FY2020 / FY2019
Sales	116	61	54	232	91	75	**72**	**238**	**+3%**

● **FY2020 Composition ratio**



● **Changes in quarterly sales**



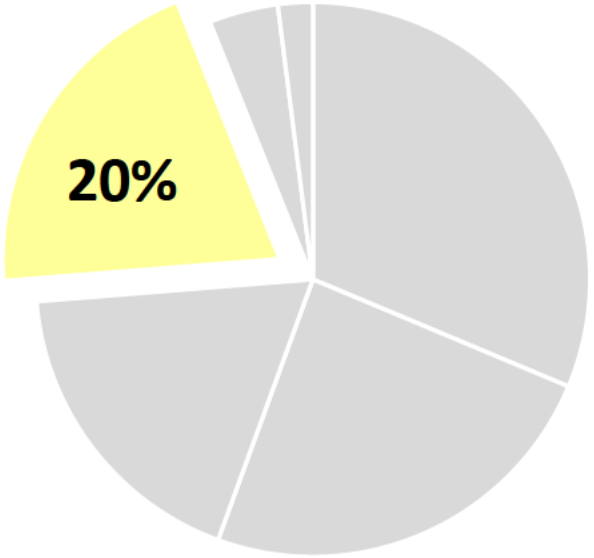
■ Due to the recovery of demand starting from the second half, annual sales increased slightly by 3% compared to FY2019.

Sales by Application_Consumer/Mobile Equipment

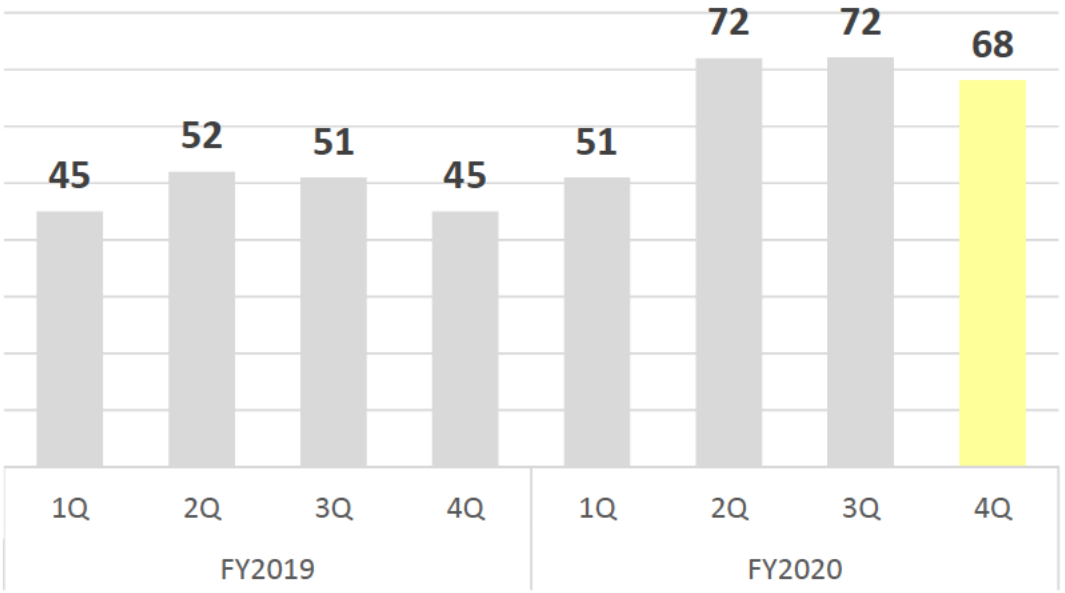
(Yen in hundred millions)

	FY2019				FY2020				YoY
	1H	3Q	4Q	FY19	1H	3Q	4Q	FY20	FY2020 / FY2019
Sales	97	51	45	194	123	72	**68**	**263**	**+36%**

● **FY2020 Composition ratio**



● **Changes in quarterly sales**



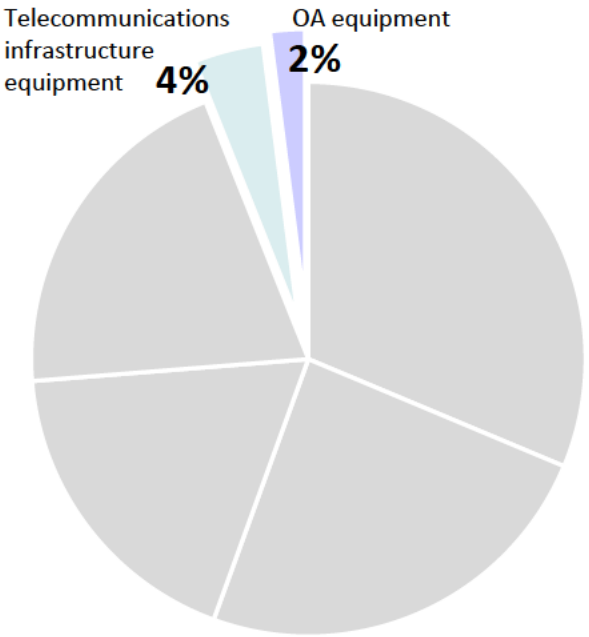
■ Remote working became more popular and the demand for personal and small consumer equipment has been still strong.

Sales by Application_Telecommunications infrastructure equipment / OA equipment

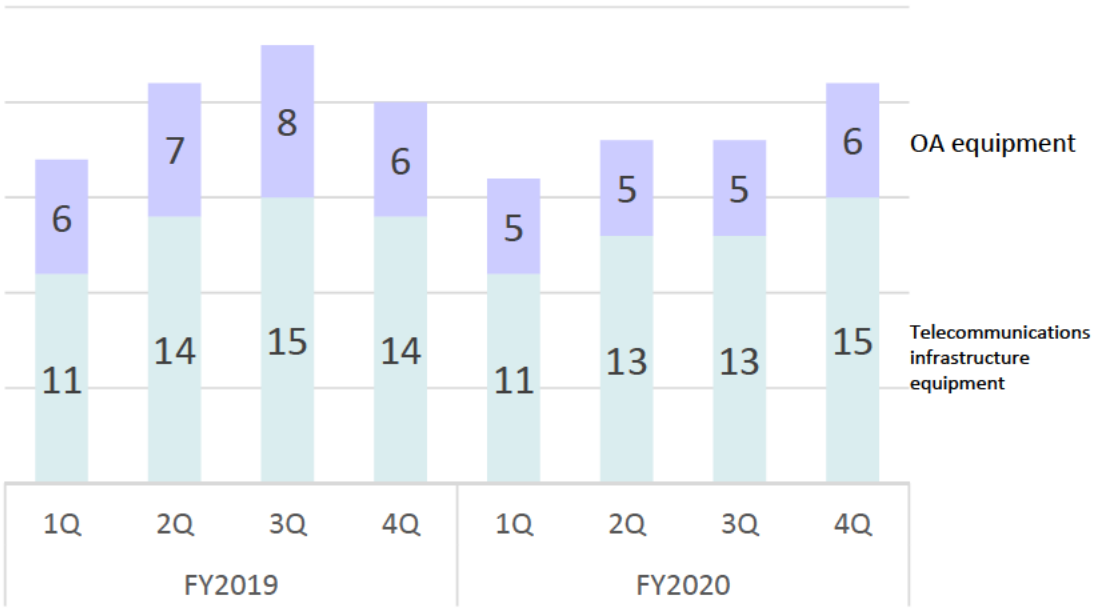
(Yen in hundred millions)

	FY2019				FY2020				YoY
	1H	3Q	4Q	FY19	1H	3Q	4Q	FY20	FY2020 / FY2019
Telecommunications infrastructure equipment	25	15	14	54	24	13	**15**	**52**	**-3%**
OA equipment	13	8	6	27	10	5	**6**	**21**	**-22%**

● FY2020 Composition ratio

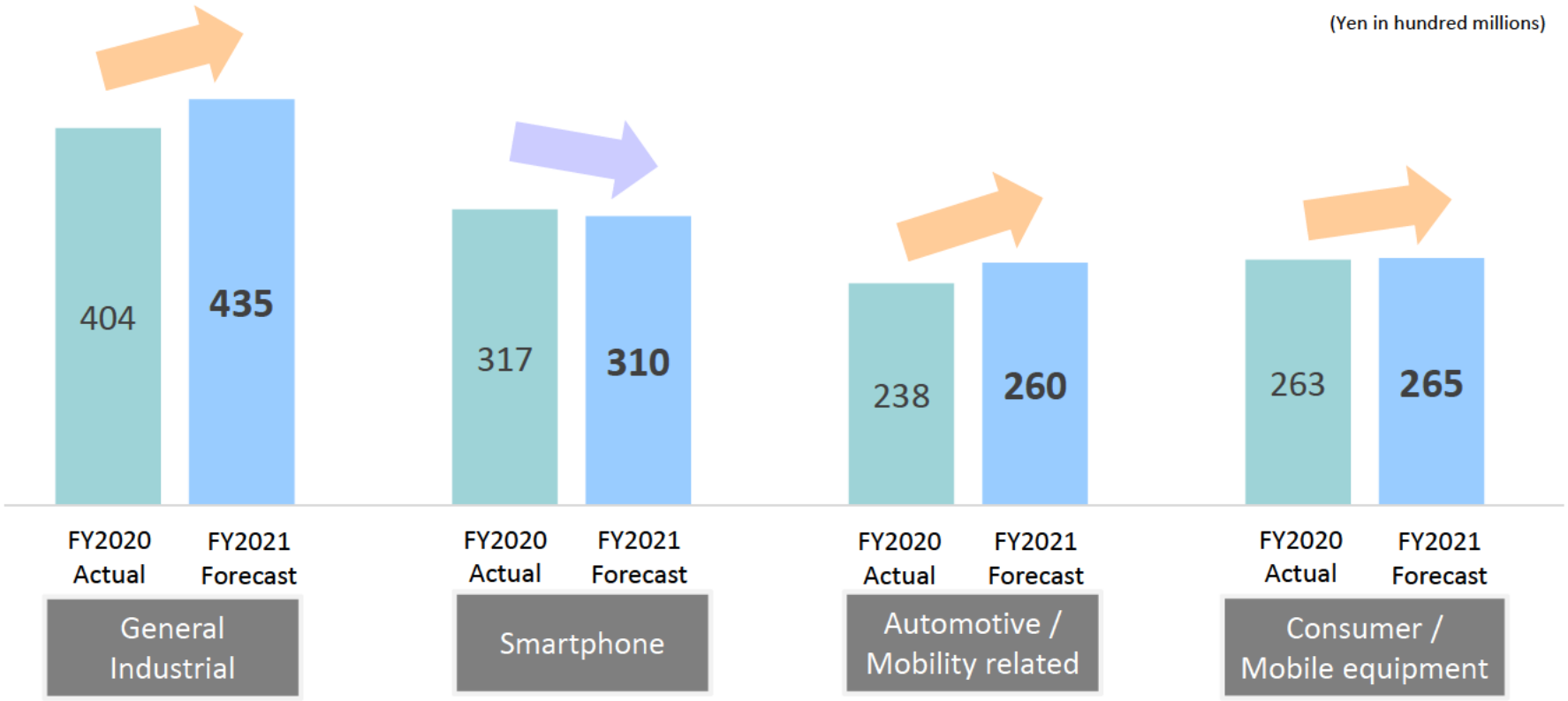


● Changes in quarterly sales



Annual sales forecast by applications (round number)

(Yen in hundred millions)



FY2021 Annual growth rate

- General Industrial +8%
- Smartphone -2%
- Automotive / Mobility-related +10%
- Consumer / Mobile equipment +1%

Business Forecast for the Year Ending March 31, 2022 (Consolidated)

(Yen in hundred millions)

	FY2020 (FY ended March 31, 2021) Actual		FY2021 (FY ending March 31, 2022) 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	610.4	1,335.4	**700.0**	**1,380.0**	89.6	14.7	44.6	3.3
COGS Ratio	57.6%	57.6%	**58.0%**	**58.1%**				
Operating Profit	128.9	278.8	**135.0**	**265.0**	6.1	4.7	-13.9	-5.0
(%)	21.2%	20.9%	**19.3%**	**19.2%**				
Earnings before income tax	128.9	283.3	**135.0**	**265.0**	6.1	4.8	-18.3	-6.5
(%)	21.1%	21.2%	**19.3%**	**19.2%**				
Net Profit	93.4	199.2	**95.0**	**190.0**	1.6	1.7	-9.2	-4.6
(%)	15.3%	14.9%	**13.6%**	**13.8%**				
Income Per Share	—	549.11 yen	—	**523.64 yen**				
Dividend Per Share	120 yen	240 yen	**130 yen**	**260 yen**				
Consolidated Dividend Payout Ratio	—	43.7%	—	**49.7%**				

(Yen)	FY2020 Actual	FY2021 Forecast As of May, 2021
1US$	106.06	104.00
1€	123.70	129.00
100won	9.17	9.70

Medium-term capital policy-1 Shareholder Return

1. Dividend

- ✓ Basic policy: from FY2021 to FY2024 dividend payout ratio: **50%**
- ✓ In FY2021, the annual dividend will be increased 20 yen

  Interim dividend 130 yen (←120)
  Annual dividend 260 yen (←240)

2. Treasury Shares

- ✓ Carry out share buyback (up to a total maximum of **40 billion yen**) from FY2021 to FY2024
- ✓ Cancel any treasury stocks that exceeded 5% of our total issued stocks every fiscal year

- Improve capital efficiency by enhancing mid-term shareholder return policy
- More improvement of profitability

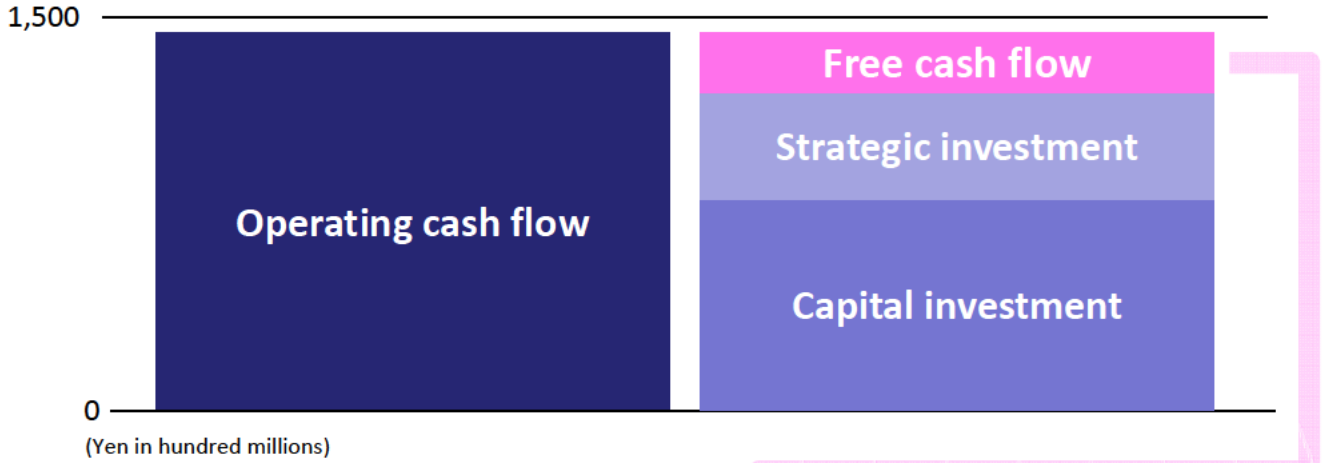
"Improvement of ROE" **Our target: ROE 8% by FY2024**

If we will face below situation, we may review this policy. (1) Unintended sudden environmental changes or unpredictable financial performance downfall (2) Due to natural disasters or other special reasons, normal business is unable to operate (3) Large amount of capital investment is needed due to huge M&A

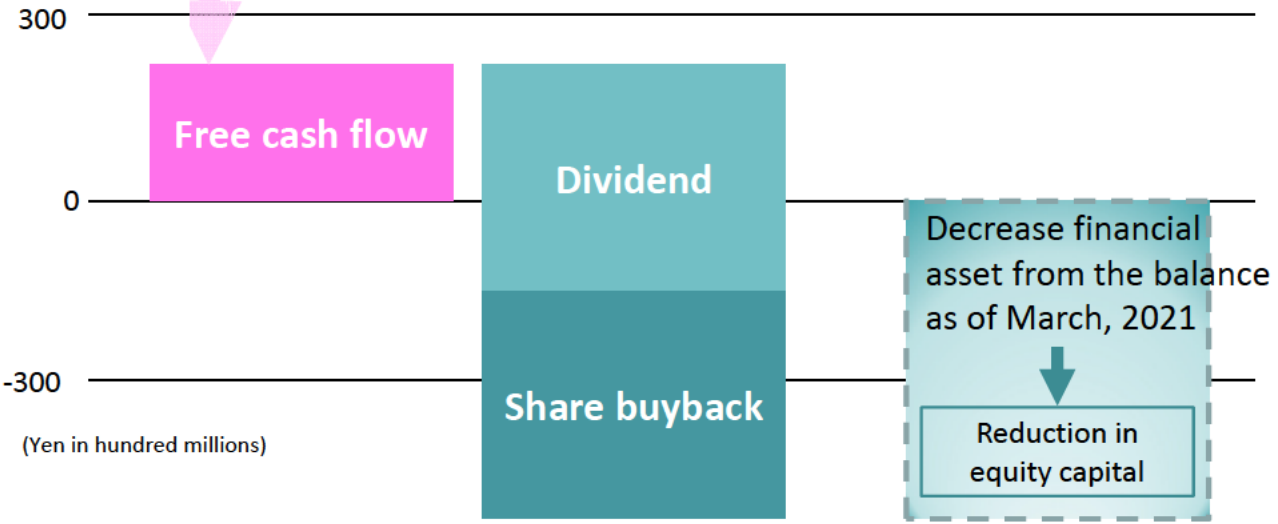
Regarding the details of share buyback in the Fiscal 2021, we will inform you as soon as it is decided.

Medium-term capital policy-2 Cash flow from FY2021 to FY2024

Use of operating cash flow (image)

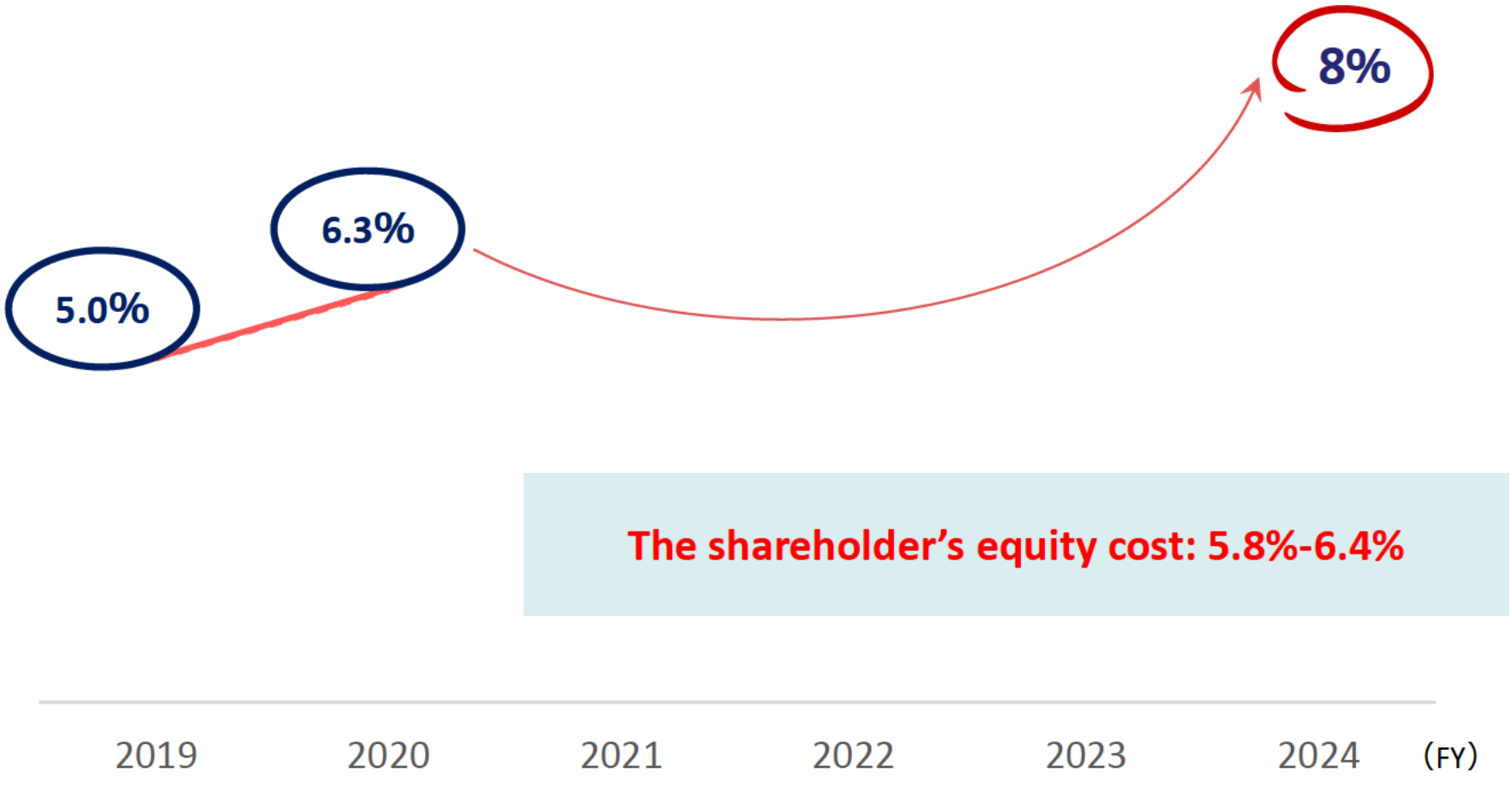


Use of free cash flow (image)



Medium-term capital policy-3　The forecast of ROE

We will improve capital efficiency by our new shareholder returns from FY2021 to FY2024 and improve profitability, and strive to achieve our **ROE target, 8%**.



Medium-term capital policy-4　For our stakeholders



We attach special importance to consideration for our every stakeholders;
(1)　Employees (2) Customers (3) Suppliers (4) Communities (5) Shareholders
We will utilize our assets by taking a good balance between growth investment and shareholder return, and we will strive to realize continuous business growth and sustainable business operation in the future.

Purpose of establishment of audit & supervisory committee

We will establish Audit & Supervisory Committee which the majority of the committee members consists of outside directors, and grant directors who are also audit & supervisory committee members the right to vote at the board of directors in order to

Strengthen audit and supervisory functions

- of the board
- of legality and validity of business execution

⇒ Enhance and enrich corporate governance much more

Change in Personnel (On and After Jun 25th 2021)

Directors (excluding directors who are audit and supervisory committee members)		
President		Kazunori Ishii (Reappointed)
Senior Managing Director	Group President, Engineering Group and in charge of Production Group	Mitsuo Nakamura (Reappointed)
Director	Group President, Production Group	Yukio Kiriya (Reappointed)
Director	Group President, Sales & Marketing Group	Hiroshi Satoh (Reappointed)
Director	Group President, Administration Group	Shin Kamagata (Newly appointed)
Director	Deputy Group President, Engineering Group	Jun Inasaka(Newly appointed)
Director	President, Hirose Korea Co., Ltd.	Sang-Yeob LEE (Reappointed)
Outside Director		Kensuke Hotta (Reappointed)
Outside Director		Tetsuji Motonaga (Reappointed)
Outside Director		Masanori Nishimatsu (Reappointed)

Directors who are audit and supervisory committee members	
Director (Full-time audit and supervisory committee member)	Yoshikazu Chiba (Newly appointed)
Outside Director (audit and supervisory committee member)	Terukazu Sugishima (Newly appointed)
Outside Director (audit and supervisory committee member)	Kentaro Miura (Newly appointed)

*Hiroshi Fukumoto, current board director will retire from the position on June 25, 2021.

〔Ratio of outside directors: 38.5%〕

Appendix

Sales by Applications round number (quarterly basis)

(Yen in hundred millions)

	FY2019				FY2020				FY2020 Composition ratio by applications
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	
General Industrial	86	93	91	103	103	95	97	**109**	**31%**
Smartphone	68	85	75	72	57	89	100	**71**	**24%**
Automotive / Mobility-related	56	60	61	54	39	52	75	**72**	**18%**
Consumer / Mobile Device	45	52	51	45	51	72	72	**68**	**20%**
Telecommunications Infrastructure Equipment	11	14	15	14	11	13	13	**15**	**4%**
OA Equipment	6	7	8	6	5	5	5	**6**	**2%**
Total of Connector Sales	272	311	302	293	265	326	362	**341**	**100%**
Others	11	9	11	9	9	10	13	10	
Total	**282**	**320**	**313**	**302**	**274**	**336**	**374**	**351**	