HOSIDEN CORPORATION

Financial Results Briefing for the First Six Months Ended September 30, 2023

Summary of financial results has been added.

- **Part 1: Commentary on financial results briefing materials**
- **Part 2: Message from Kenji Furuhashi, President & CEO**
- **Part 3: Main Q&A**

Held at 10:30 a.m. on November 16, 2023

Part 1

Commentary on financial results briefing materials

Summary of Consolidated Financial Results for the First Six Months Ended September 30, 2023

HOSIDEN

(Unit: Millions of yen)

	First half of FY2022	First half of FY2023	Rate of change
Net sales	120,666	124,909	3.5%
Operating profit	10,147	6,467	△36.3%
Ordinary profit (exchange gain)	16,070 (5,565)	11,017 (4,113)	△31.4%
Profit attributable to owners of parent	10,941	7,315	△33.1%
Net assets	129,094	131,566	1.9%

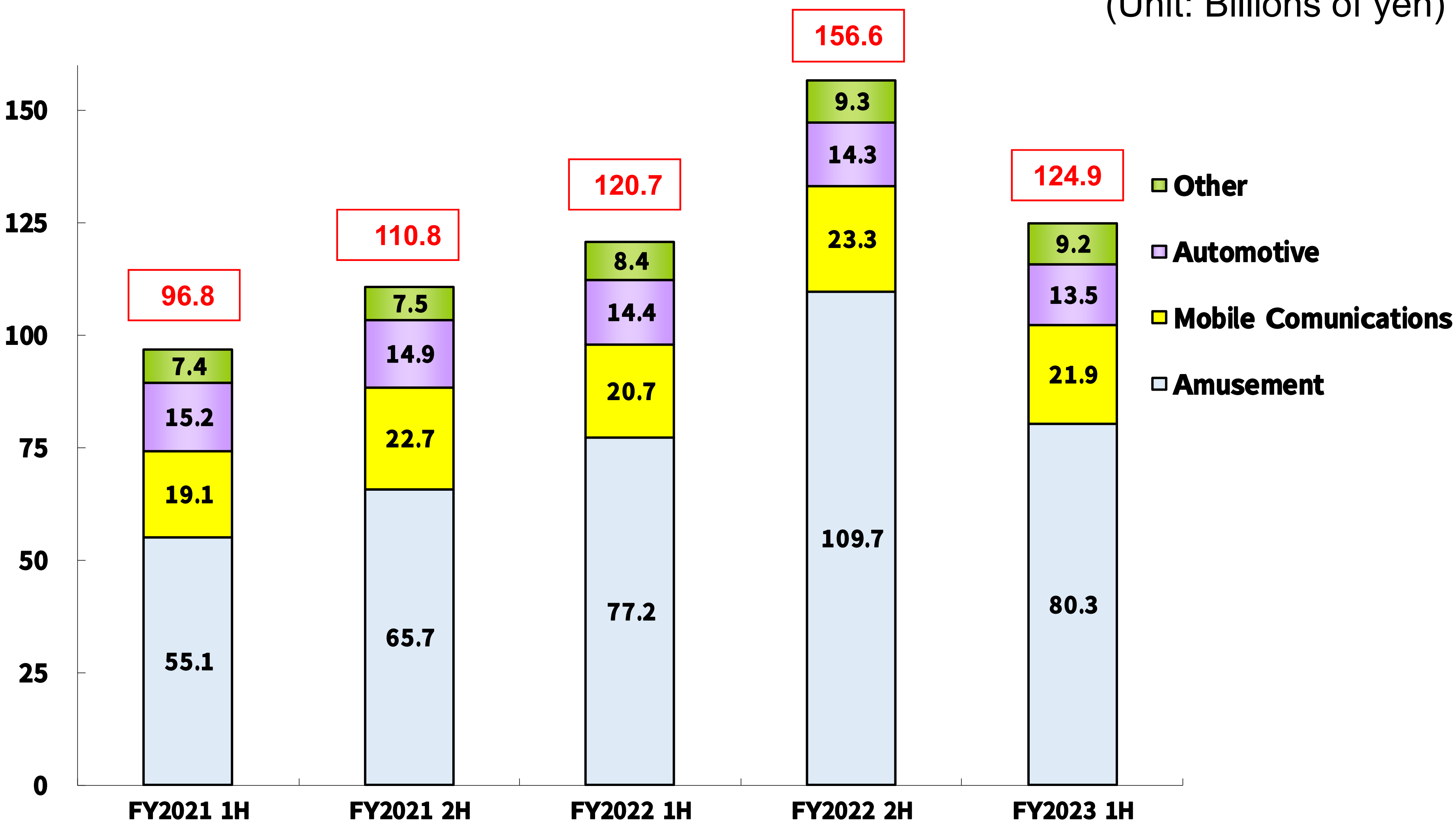
Overall net sales were 124.9 billion yen, up 3.5% from the previous year (up 4.2 billion yen in value). This was the result of a 3.1 billion yen increase in the amusement-related business, a 1.2 billion yen increase in the mobile communications business, and an 800 million yen increase in other businesses. In contrast, sales in the automotive equipment business fell by 900 million yen.

In terms of profits, operating profit was pushed higher in both the first half of the previous year and the first half of the current year due to the depreciation of the yen, which increased the yen value of the difference between dollar sales and purchases, as well as valuation gains on dollar purchase inventories. However, since the positive effect in the previous year was greater, operating profit excluding the impact of foreign exchange was approximately 5 billion yen for both the first half of the previous year and the first half of the current year, which was almost the same as our initial forecast.

Foreign exchange gains of 4.1 billion yen were also recorded as non-operating income due to the weaker yen, but since it was 5.6 billion yen in the same period a year earlier, ordinary profit fell 5.1 billion yen year-on-year to 11.0 billion yen.

First half of FY2023: Sales by Market

(Unit: Billions of yen)



In terms of sales by market, amusement-related sales increased by 4.0% year-on-year to 80.3 billion yen due to increased sales to major customers.

Mobile communications-related sales increased by 5.9% year-on-year to 21.9 billion yen due to an increase in electro-mechanical components for major customers.

For automotive equipment, although acoustic components increased by 11.9% from the same period in the previous year, display components decreased by a significant 53.6% year-on-year, resulting in overall sales for automotive equipment decreasing by 6.0% year-on-year to 13.5 billion yen.

Other sales increased by 9.1% year-on-year to 9.2 billion yen, driven by sales of microphones used in audio equipment.

Summary of Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Unit: Billions of yen)

	First half of FY2022	First half of FY2023	increase or decrease	FY2023 (forecast)
Net sales	120,666	124,909	4,243	219,000
Cost of sales	105,490	113,607	8,117	199,000
SGA expenses	5,028	4,835	△193	10,000
Operating profit	10,147	6,467	△3,680	10,000
Non-operating income and expenses	5,923	4,550	△1,373	1,000
Ordinary profit	16,070	11,017	△5,053	11,000
Extraordinary profit	94	3	△91	10
Extraordinary losses	226	10	△216	10
Profit before income taxes	15,938	11,010	△4,928	11,000
Total income taxes	4,997	3,695	△1,302	2,500
Profit attributable to owners of parent	10,941	7,315	△3,626	8,500
Comprehensive income	12,553	10,157	△2,396	-

Since I have provided an overview of sales and profits, I will not explain the income statement.

Summary of Consolidated Balance Sheets

HOSIDEN

(Unit: Billions of yen)

	Mar. 31, 2023	Sep. 30, 2023	increase or decrease
Assets			
Current assets	151,878	151,063	△815
Property, plant and equipment	17,495	17,675	180
Intangible assets, Investments and other assets	10,619	11, 359	740
Total assets	179,993	180,098	105
Liabilities			
Current liabilities	37,919	32,778	△5,141
Non-current liabilities	15,319	15,752	433
Net assets	126,753	131,566	4,813
Total liabilities and net assets	179,993	180,098	105

Regarding the balance sheet, total assets increased slightly by 100 million yen from the end of the previous fiscal year. Among the items, there was a large change in current liabilities and total net assets.

Current liabilities decreased by 5.1 billion yen from the end of the previous fiscal year, mainly due to a decrease in accounts payable due to a decrease in amusement-related purchases and a decrease in short-term loans payable.

Net assets increased by 4.8 billion yen, and the equity-to-asset ratio increased by 2.7 percentage points from the end of the previous fiscal year to 73.1%.

Summary of Consolidated Statements of Cash Flows

(Unit: Billions of yen)

	First half of FY2022	First half of FY2023	FY2022
Cash flows from operating activities	19,519	5,657	20,765
Profit before income taxes	15,938	11,010	18,527
Depreciation	1,607	1,482	3,385
Increase (decrease) in receivable, payable and inventories	6,258	△3,213	3,720
Other, net	△4,283	△3,622	△4,867
Cash flows from investing activities	△1,553	△1,147	△9,852
Purchase of property, plant and equipment	△1,510	△867	△2,818
Other, net	△44	△279	△7,034
Cash flows from financing activities	△3,085	△6,610	△7,437
Purchase of treasury shares	△0	△2,816	△3,000
Dividends paid	△3,022	△2,557	△4,287
Other, net	△62	△1,236	△150
Effect of exchange rate change on cash and cash equivalents	1,040	272	62
Net increase (decrease) in cash and cash equivalents	15,922	△1,827	3,538
Cash and cash equivalents at end of period	78,401	64,189	66,017

Cash flows from operating activities in the first half of the 2023 fiscal year increased by 5.7 billion yen. While quarterly net income was 11 billion yen, cash-out due to a decrease in trade payables was 5.1 billion yen and cash-out due to payment of corporate taxes, etc. was 3.7 billion yen.
Cash flows from investing activities decreased by 1.1 billion yen, mainly due to the purchase of property, plant, and equipment.
Cash flows from financing activities decreased by 6.6 billion yen, mainly due to expenditures of 2.8 billion yen for the purchase of treasury shares and 2.6 billion yen for the payment of dividends.

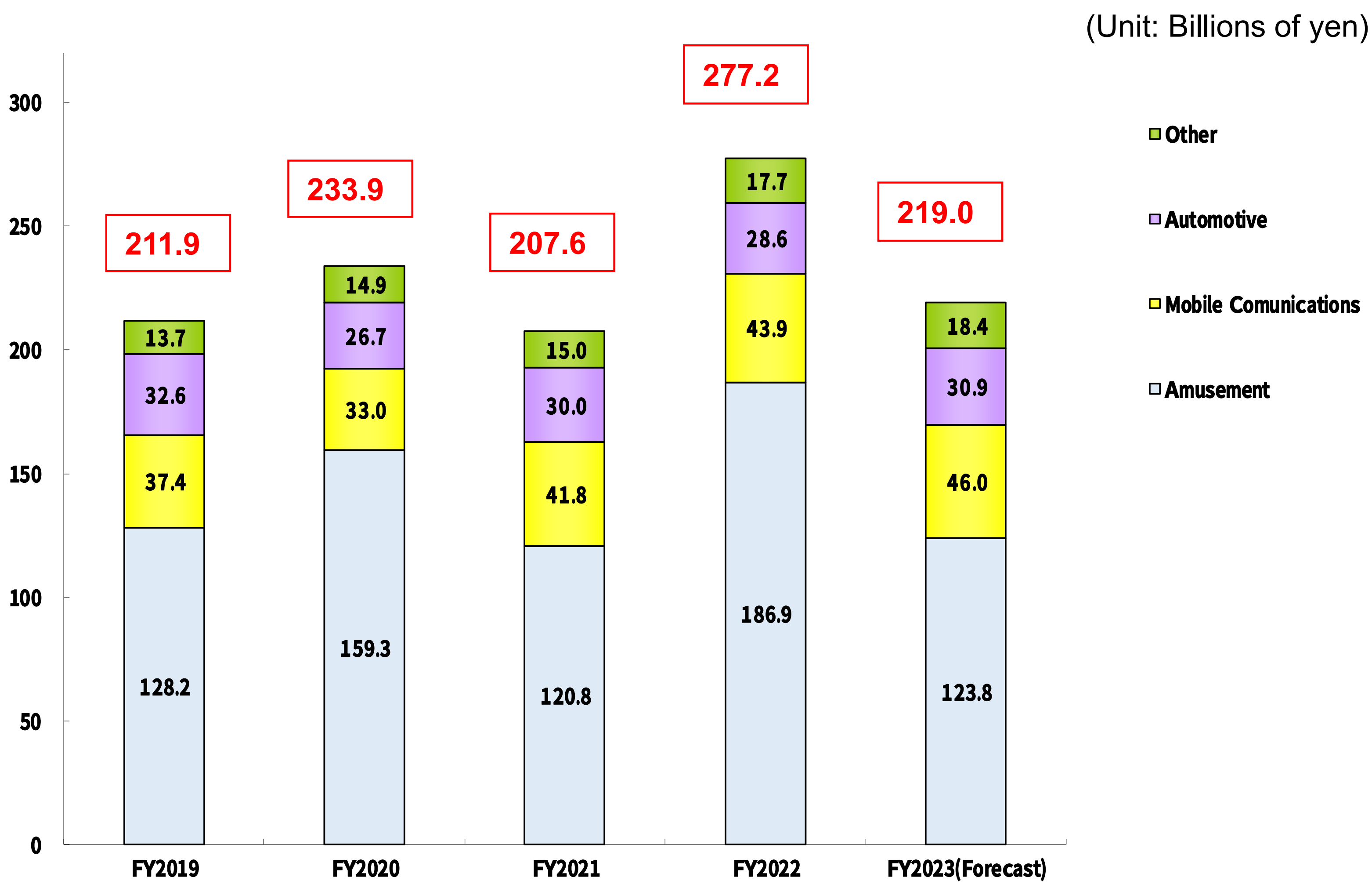
As a result, the balance of cash and cash equivalents at the end of the period decreased by 1.8 billion yen from the end of the previous fiscal year.

Summary of the First Half of FY2023

Overall	• Overall, sales increased by 3.5% compared to the first half of the previous year. But operating profit decreased by 36.3%. • Sales for Automotive market decreased. Sales for the other market increased. • Operating profit was 10.1 billion yen in the first half of 2022 and 6.5 billion yen in the first half of 2023. Both of operating profit was 5 billion yen if there was no impact of the weaker yen.
Amusement	• In the first half of FY2023, sales increased by 4% from the first half of the previous year after an increase in Q2.
Mobile Communications	• Sales to major customers were strong, and sales increased by 6% from the first half of the previous year.
Automotive	• Sales in the acoustic components segment increased by 12% from the first half of the previous year, while sales in the electro-mechanical components segment fell by 2% as production at some automakers did not recover. Sales in the display components segment decreased significantly as production of touch panels sold to major customers was discontinued in the middle of the previous fiscal year. As a result, overall sales in automotive equipment fell by 6% from the first half of the previous year.
Other	• Sales of microphones used in audio equipment continued to grow, while medical and health-related sales and air conditioning-related sales increased slightly. Sales in other businesses as a whole increased by 9% from the first half of the previous year.

This page summarizes the sales results for the first half of the fiscal year explained earlier.

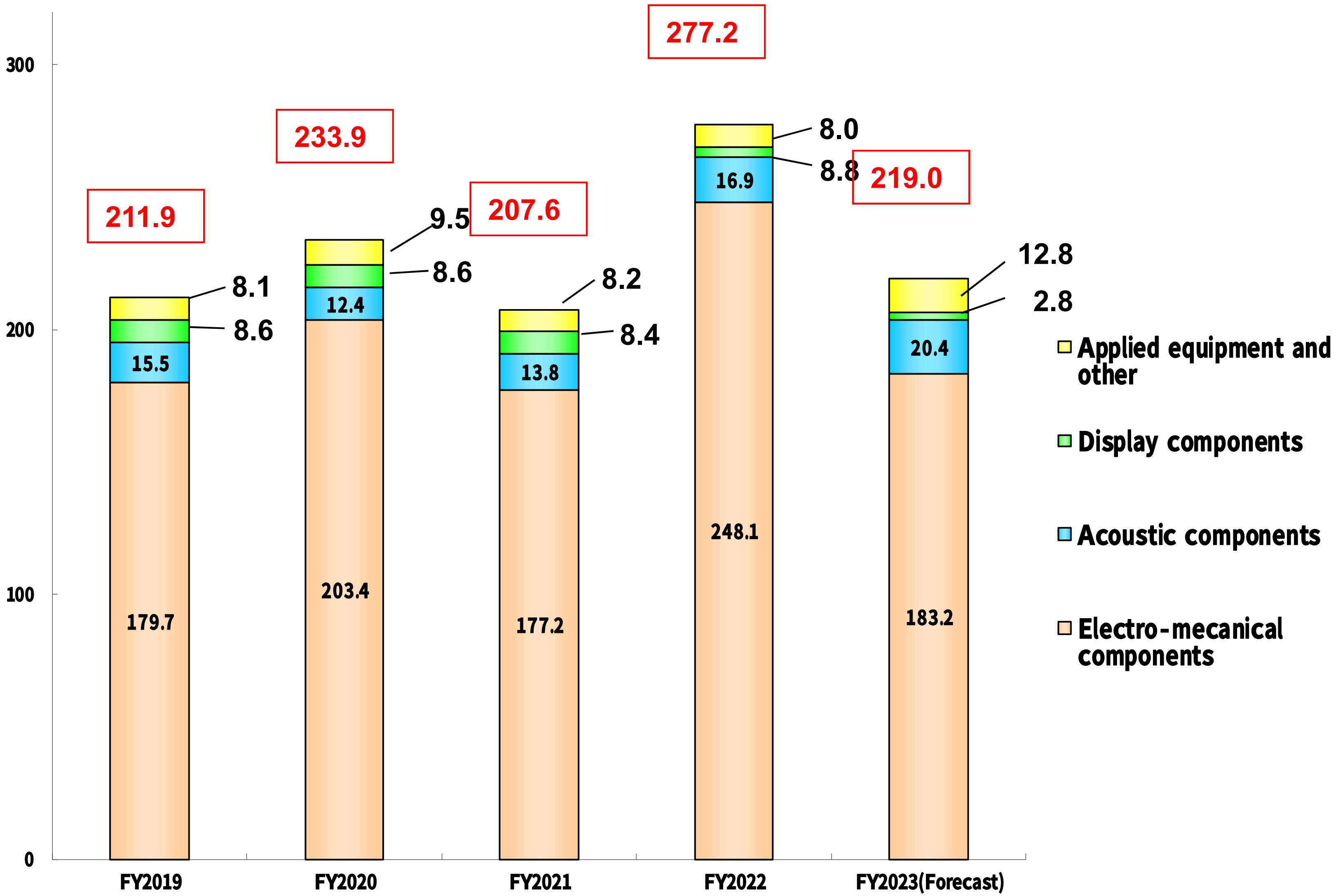
FY2023 Full-Year Forecast: Sales by Market



For sales in the 2023 fiscal year by market, we expect sales in amusement-related equipment to decrease by 63.1 billion yen year-on-year to 123.8 billion yen. We forecast overall sales to be 219.0 billion yen, down 58.2 billion yen.

FY2023 Full-Year Forecast: Sales by Segment

(Unit: Billions of yen)



For full-year sales forecasts by segment for the 2023 fiscal year compared to the previous year, we expect sales in electro-mechanical components to be 183.2 billion yen, mainly due to a decrease in sales of amusement-related equipment.

Sales in acoustic components are expected to be 20.4 billion yen, mainly due to an increase in demand for automotive equipment and other equipment.

Sales in display components are expected to be significantly lower at 2.8 billion yen, as production of touch panels sold to major customers was discontinued in the middle of the previous fiscal year.

Sales in applied equipment and others are expected to be 12.8 billion yen, driven mainly by amusement-related equipment for customers other than our main customers. We also expect an increase in medical and health-related sales and air conditioning-related sales.

Key Points of the FY2023 Full-Year Forecast

HOSIDEN

Sales	• Overall, sales are expected to decrease by 21% from the previous year due to a decline in amusement sales.	
	Amusement	We expect sales to decrease by 46% in the second half compared to the first half given expectations for lower demand in the second half. For the full year, a 34% decline is expected from the previous year.
	Mobile communications	Sales are expected to increase by 5% year-on-year.
	Automotive equipment	Despite the impact of the discontinuation of display components (touch panels) sales to major customers, sales of electro-mechanical and acoustic components are expected to increase, resulting in an 8% increase year-on-year.
	Other	Sales are expected to increase 4% year-on-year due to growth in sales of microphones used in audio equipment.
Profit	• Operating profit is expected to decrease by 37% from the previous year, and ordinary profit is expected to decrease by 42% from the previous year. • In the previous fiscal year, the weak yen had a large effect on boosting profits. (Operating profit excluding the effects of foreign exchange is expected to be 8.5 billion yen for the current fiscal year, compared to 10.0 billion yen in the previous fiscal year. Ordinary profit is expected to be 9.5 billion yen for the current fiscal year, compared to 10.7 billion yen in the previous fiscal year.) • The assumed exchange rate is unchanged at 134 yen per US dollar.	

The aforementioned full-year sales forecast for FY2023 is summarized in the sales column on this page. For profit forecasts, please refer to this page.

Capital Investment, Depreciation, Research and Development

(Unit: Millions of yen)

	FY2019	FY2020	FY2021	FY2022	FY2023 (Forecast)
Capital investment	5,985	3,476	4,179	2,038	(1st half result 1,045) 4,200
Depreciation	3,213	3,136	3,186	3,385	(1st half result 1,482) 3,600
R&D expenses	2,371	2,410	2,187	2,020	(1st half result 979) 2,500

There are no changes in the full-year forecasts made at the beginning of the fiscal year regarding capital investment, depreciation, and R&D expenses for FY2023.

(Topic) Initiatives for Carbon Neutrality

CO2 reduction targets

- Medium-term target: 20% reduction in intensity by the end of FY2025 compared to FY2013.
- Long-term target: Aim for 46% reduction by the end of FY2030 compared to FY2013 levels.

Efforts to reduce CO2 by installing solar panels

Site	Annual CO2 reduction	CO2 reduction rate Forecast based on FY2022 result	Operation started from
Hosiden Wakayama	124 tons	25.2%	Oct. 2022
Hosiden Kyushu	187 tons	17.4%	Feb. 2023
Hosiden Besson (UK)	15 tons	20.2%	Apr. 2023 (1st phase) Sep. 2023 (2nd phase)

Hosiden Wakayama

Hosiden Kyushu

Hosiden Besson 1st phase (United Kingdom)

Installed solar panels on the roof of our head office beginning April 2014

Working to switch to LED lighting in offices and production buildings, purchasing electricity using renewable energy, etc.

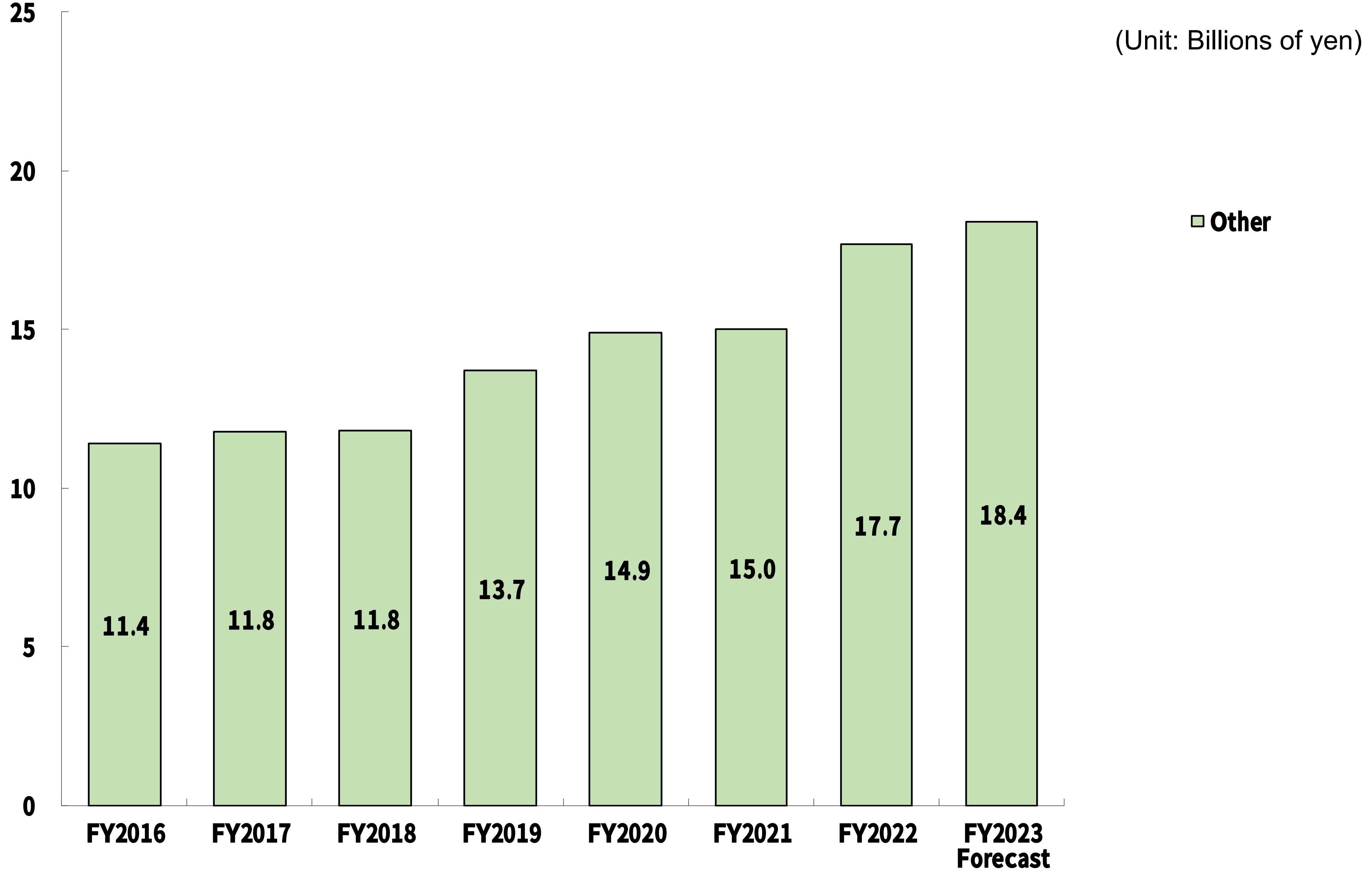
CDP (Carbon Disclosure Project) Score

Aiming for B-minus or higher in FY2023

Regarding carbon neutral initiatives, the only change from the briefing materials presented at the financial results briefing in May 2023 is the information added about the installation of solar panels at Hosiden Besson, our manufacturing subsidiary in the UK.

The photo shows the first phase of construction, which has been in operation since April 2023. The second phase of construction for a separate building has also been completed and has been in operation since late September.

(Topic) Transition in sales for “others” by Market



The table shows the transition in sales by market for “Other” since fiscal 2016, which has been steadily increasing every year.

Recently, the increase has been led by microphones used in audio equipment, followed by medical and health-related and air conditioning-related products.

Part 2

Message from Kenji Furuhashi, President & CEO

Review of the First Half of FY2023 (1)

About the status of Electronic Component Industry

The electronic components industry had been growing steadily even during the COVID-19 pandemic, but is now in a downturn after demand for smartphones and personal computers began falling sharply from the second half of 2022.

There was talk that demand would bottom out around the summer of 2023, but this has now been pushed back to October and November. There is strong demand for data centers, etc., but other than that, there does not seem to be anything that is driving the market.

About the performance of Hosiden

• Amusement

The second quarter (July to September) was generally strong. Demand was strong, increasing 63% from the same period last year. There was a rebound from the semiconductor shortage last year and demand has been pushed higher by software and movies this year, which marks the seventh year since the products have been on sale. Sales were 46 billion yen in the second quarter.

• Mobile Communications

As the slump in the market continues, high-end models which our customers are focusing on remain solid and sales in the second quarter (July to September) increased more than our initial plan. Although we do not expect growth to be big going forward, we expect the current trend to continue in the second half of the year and look forward to the new products that are announced at the beginning of each year.

Review of the First Half of FY2023 (2)

About the performance of Hosiden (Continued)

- Automotive

Growth in automotive equipment has been slow, and it is disappointing that we have not achieved the plans we set at the beginning of the fiscal year. The reason for this is that at the beginning of the fiscal year, we made sales plans by estimating the parts that would be installed in each car model based on automakers' production plans, but in the first half none of the automakers met their plans. The decrease in production volume was particularly noticeable at Japanese automakers, with some customers having a decrease of nearly 20%. Automakers do not increase production volume in future months even when one month’s production volume falls short, so a decrease in production volume is carried over throughout the year.

With that said, we have new projects determined which will start in 2025 and 2026, therefore we believe our sales in automotive equipment will not decline going forward.

- Other

In the past, AV equipment was a mainstay, but now it is classified under “Other.” Other products also include products for healthcare, air conditioning equipment, and industrial equipment. Although they have yet to become a pillar of our business, they are showing steady growth.

Other (1)

HOSIDEN

About Balance Sheet

- The current equity-to-asset ratio is 73%. Six years ago, it was lower than it is now due to the impact of impairment losses, but as our business performance has steadily grown, the ratio has improved to the 70-80% range.

- On the other hand, we would like to reduce inventory among assets. We believe that holding inventory is a high risk because product cycles are short.

- Regarding our cash position, six years ago we had a shortfall in cash and deposits of approximately 15 billion yen, so we issued Alpine bonds. This was because in the amusement business, the amount of fee payments increases and there are times when collection is delayed. We believe that a minimum cash position of 50 to 60 billion yen (2 to 3 months worth of monthly sales) is required.

- Regarding shareholder returns, in addition to the dividend payout ratio of 30%, we will continue to buy back 10 billion yen of stock over three years, as shown in the initiatives for achieving a PBR of 1 announced in May of this year.

- In terms of capital investment, we have so far invested in our Vietnam factory, but we are also considering other locations from a BCP perspective. Additionally, given that product cycles are short, we will continue to strive for further mechanization, even if it may not result in full automation. We believe that demand for funds will increase next fiscal year and the year after that in order to respond to new products in each equipment and segment.

Other (2)

About India

- Global manufacturers of automobiles, air conditioners, and smartphones have already set up operations in India, and our business partners have strongly requested for us to start production in India.

- On the other hand, most companies that have expanded into India are struggling, so we are being careful in our consideration and response to this issue.

About Carbon Neutrality

- We believe that dealing with this matter is a must. Some European and American customers will not do business with companies that are not trying to become carbon neutral.

- We are actively working towards carbon neutrality, including installing solar panels. However, installing solar panels alone will not be enough to achieve carbon neutrality, and we believe that additional efforts such as purchasing renewable energy will be needed.

Part 3

Main Q&A

Main Q&A

Q1
At the last financial results briefing, there was talk about "strengthening and enhancing IR”. Please explain the progress you have made.
A1
In the past, briefing materials of financial results, such as the ones we distributed today, were only handed out to participants at the meeting. However, in order to share information with as many investors as possible, starting from the financial results briefing session held in May this year we post the material on our website adding a summary of the explanation, a message from the president and Q&A.
Furthermore, as part of our efforts to enhance English-language materials for foreign investors, we have translated these financial results briefing materials and the securities report for the fiscal year ending March 2023 (excerpts) into English and posted them on our website.
Additionally, in this year’s Integrated Report, we released a medium-term management plan for the first time as a company. This was achieved through dialogue with had with investors since last year, and we would like to continue to gather opinions from our investors to strengthen and enhance IR.

Q2
There was talk about a new product at the previous financial results briefing and that the company would provide information about it at today’s financial results briefing. Please tell us about the content.
A2
The product is an IoT sensor which is mainly applied in social infrastructure. For example, the sensor measures the water level in sewage pipes impacted by heavy rains, or tank capacity in large-scale plants, and detects overflows to prevent major accidents from occurring. Methods for confirming safety in social infrastructure, such as visual inspection by people, have a tendency not to change, so various demonstrations will be needed to confirm sensor effectiveness and this will take time. However, there is a clear need both domestically and internationally. We believe that to understand customer needs, we must offer a lineup of sensor products.