



Consolidated Financial Results Briefing Materials For 2nd Quarter Of FY 2020

IRISO ELECTRONICS CO., LTD.
Stock Code: 6908
(Nov 5, 2020)



-  **I . Summary of the consolidated
Financial Results for Q2 of FY 2020**

- II . FY2020 Financial Forecast and
Company Initiatives**



1. Summary of FY2020 Q2 Business Results



Recovery trend after bottoming out in Q1 despite a YoY decrease due to the COVID-19 impact

■ **Sales:** YoY sales mainly in the automotive market have decreased as the global production has suspended and sales have been stagnant due to the worldwide spread of the COVID-19 infections. However, they have shown recovery trend after bottoming out in Q1 and reached 15 billion yen that is 1 billion yen more than initially expected.

※COVID-19 impact: approx. - 5.2 billion yen

(By region) China and Asia : approx. -2.0 billion yen, Europe : approx. -1.2 billion yen

U.S : approx. -1.2 billion yen, Japan: -0.8 billion yen

■ **Operating income:** Despite shrinking operation due to dropping sales and the rise of gold prices and inventory decrease due to rapidly growing customer demands from August onwards, it has recovered owing to cost reduction activities and strict management of budget spending. Although the forecasted result was - 0.5 billion yen, it increased by 0.67 billion yen, which means a surplus of 0.17 billion yen.

【Topics】

- Strong focus on the development of connectors for high-speed transmission
 - “Auto I-Lock™ FPC/FFC connector for 25Gbps transmission speed”: Release of 11503 series
 - “Floating BtoB connector with power terminal for 16Gbps transmission speed”: Concept of 10143 series announced

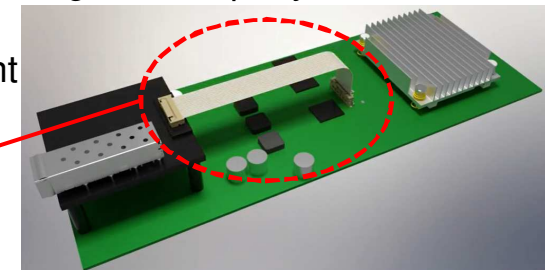
→ Connectors for high-speed transmission are added to “Auto I-Lock™” and “Floating” as company core technology to suggest new solutions for connection. At the same time, in preparation for the realization of 5G applications and the increasing amount of information due to vehicle development in the future, product lineups for high-speed transmission will be further improved.



(10143 series)



(11503 series)





2. Consolidated Results for Q2 of FY 2020 (YoY Change)



Unit: Millions of yen

	Q1-Q2 FY 2019	Q1-Q2 FY 2020	YoY change
Net sales	20,064	15,069	(4,994) (24.9)%
Operating income	2,381 11.9%	173 1.2%	(2,208) (92.7)%
Ordinary income	2,359 11.8%	76 0.5%	(2,283) (96.7)%
Net income	1,670 8.3%	8 0.1%	(1,662) (99.5)%
EPS	70.88 yen	0.35 yen	
Average exchange rate during the period	USD 108.99 yen EURO 121.42 yen RMB 15.75 yen	106.68 yen 121.36 yen 15.21 yen	(2.31) yen (0.06) yen (0.54) yen



3. Breakdown of Net Sales (by Market)



Unit: Millions of yen

		Q1-Q2 FY 2020	YoY Change	Sales Ratio	Factors of Change
Automotive (automotive applications)		11,958	(30.0)%	79.3%	<ul style="list-style-type: none"> ▪ Quick recovery owing to 70% increase in Q2 sales in the entire automotive market in comparison to Q1 ▪ Obvious increase and recovery in sales for the safety application market as they have doubled in comparison to Q1 ▪ 50% increase from the year-ago quarter in the powertrain market as eco-friendly cars have been popular worldwide despite such bad business environment
Area	Infotainment	6,346	(35.4)%	42.1%	
	Safety	2,643	(27.2)%	17.5%	
	Powertrain	1,096	46.3%	7.3%	
	Others	1,872	(35.1)%	12.4%	
Consumer (OA, game consoles, digital cameras, cellular phones, televisions, etc.)		1,968	(0.6)%	13.1%	<ul style="list-style-type: none"> ▪ Increase in sales for TV and game consoles and remaining nearly at the same level as the year-ago quarter
Industrial (Industrial equipment, etc.)		1,142	14.7%	7.6%	<ul style="list-style-type: none"> ▪ Increase as Japanese companies have increased production due to the COVID-19 pandemic
Total		15,069	(24.9)%	100.0%	<ul style="list-style-type: none"> ▪ 76.3% overseas ratio



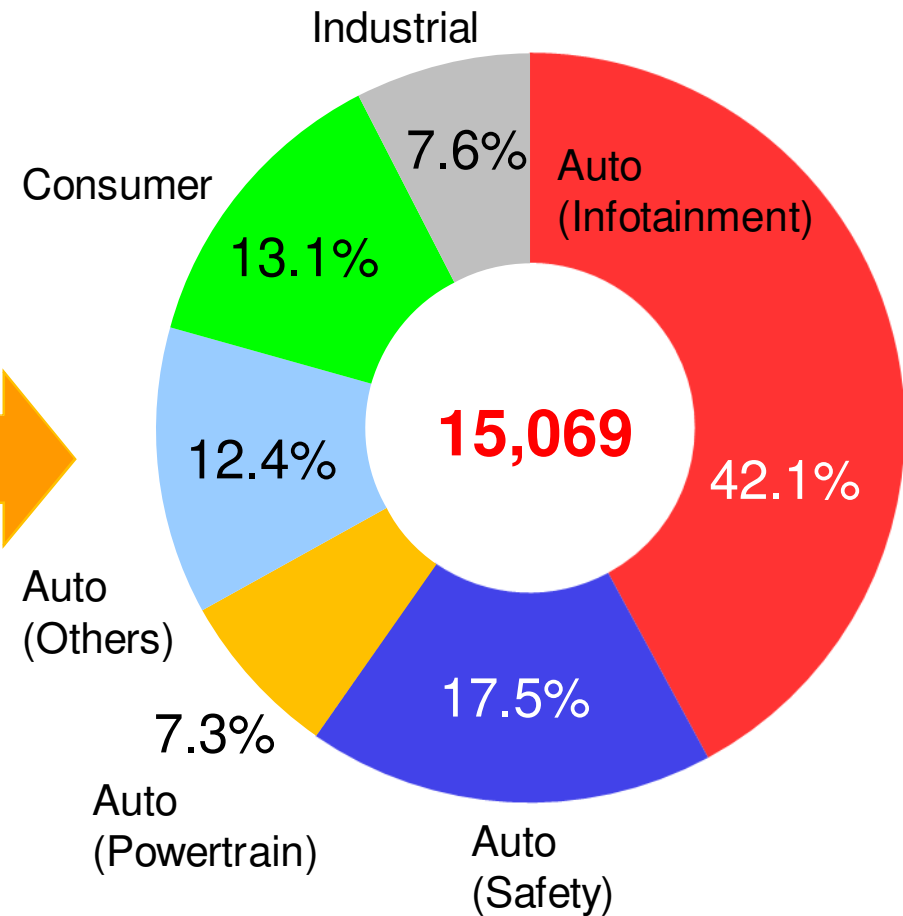
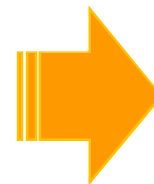
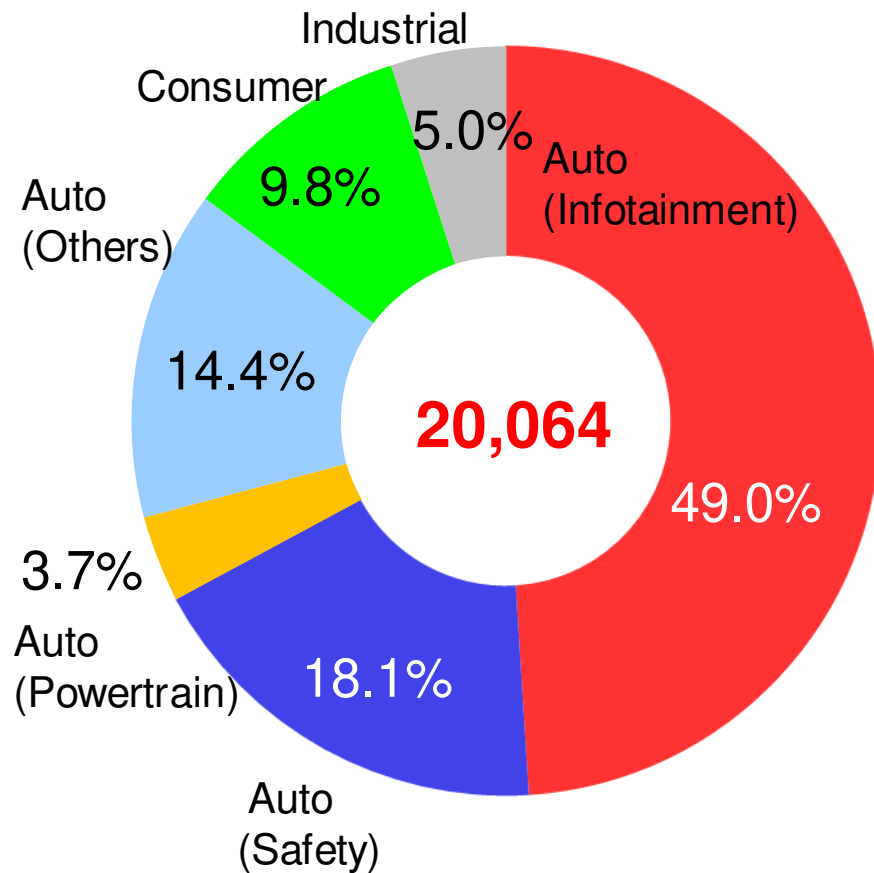
4. Net Sales Breakdown by Market (YoY)



Unit: Millions of yen

Q1-Q2 FY2019

Q1-Q2 FY2020

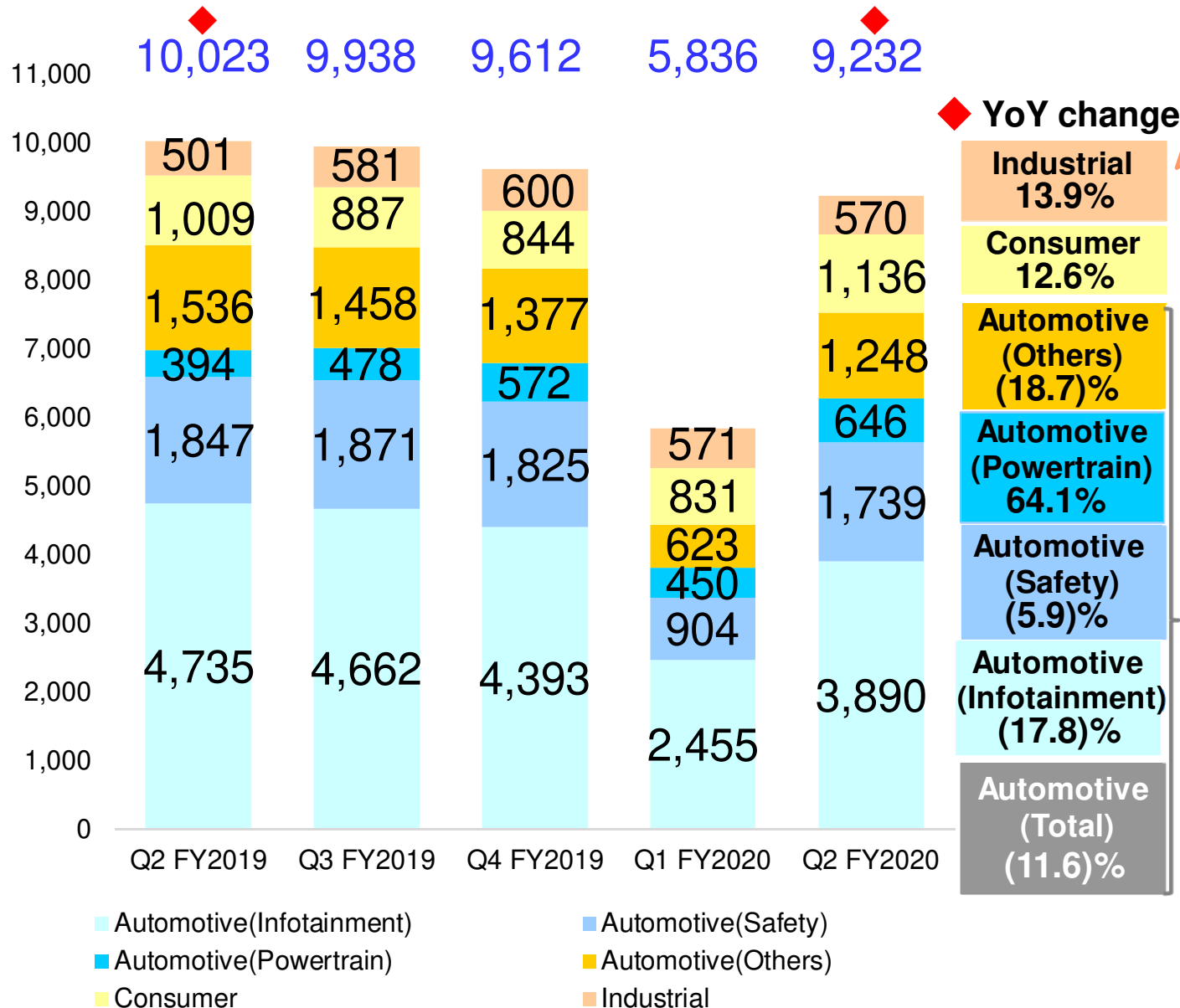




5. Net Sales by Market (Quarterly Trends)



Unit: Millions of yen



- Increase because Japanese companies have increased production after EU and US companies suspended production of FA applications due to the COVID-19 pandemic

- Increase in sales for game consoles and TV

- A drop in YoY sales due to the COVID-19 outbreak while a sharp increase from Q1 due to production resumption
- Nearly doubled in the safety application market in comparison to Q1. Also, YoY increase in sales for camera

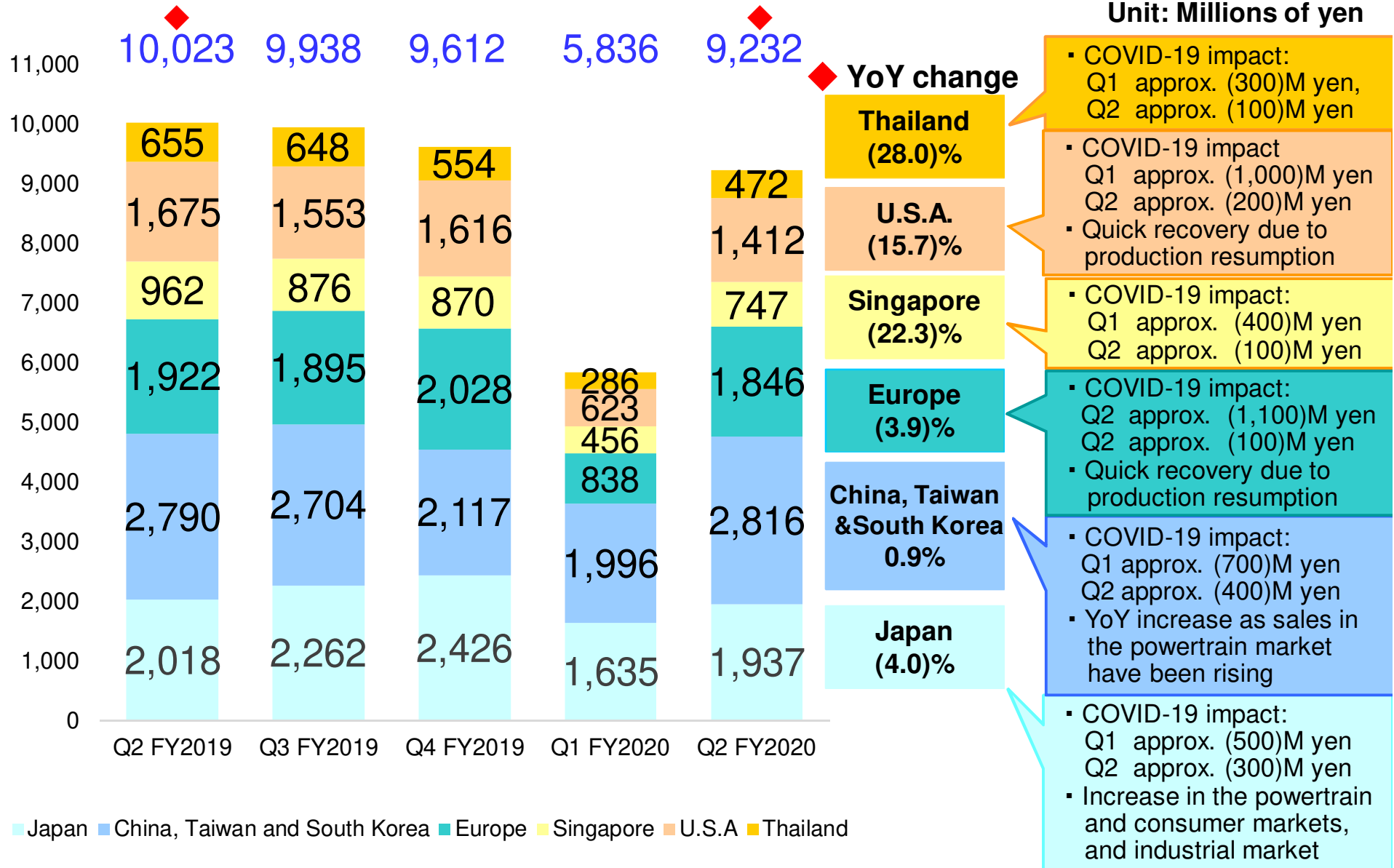
- Increase in the powertrain market in sales for battery applications and inverter for external power supply as eco-friendly cars have been popular worldwide



6. Net Sales by Area (Quarterly Trends)



Unit: Millions of yen

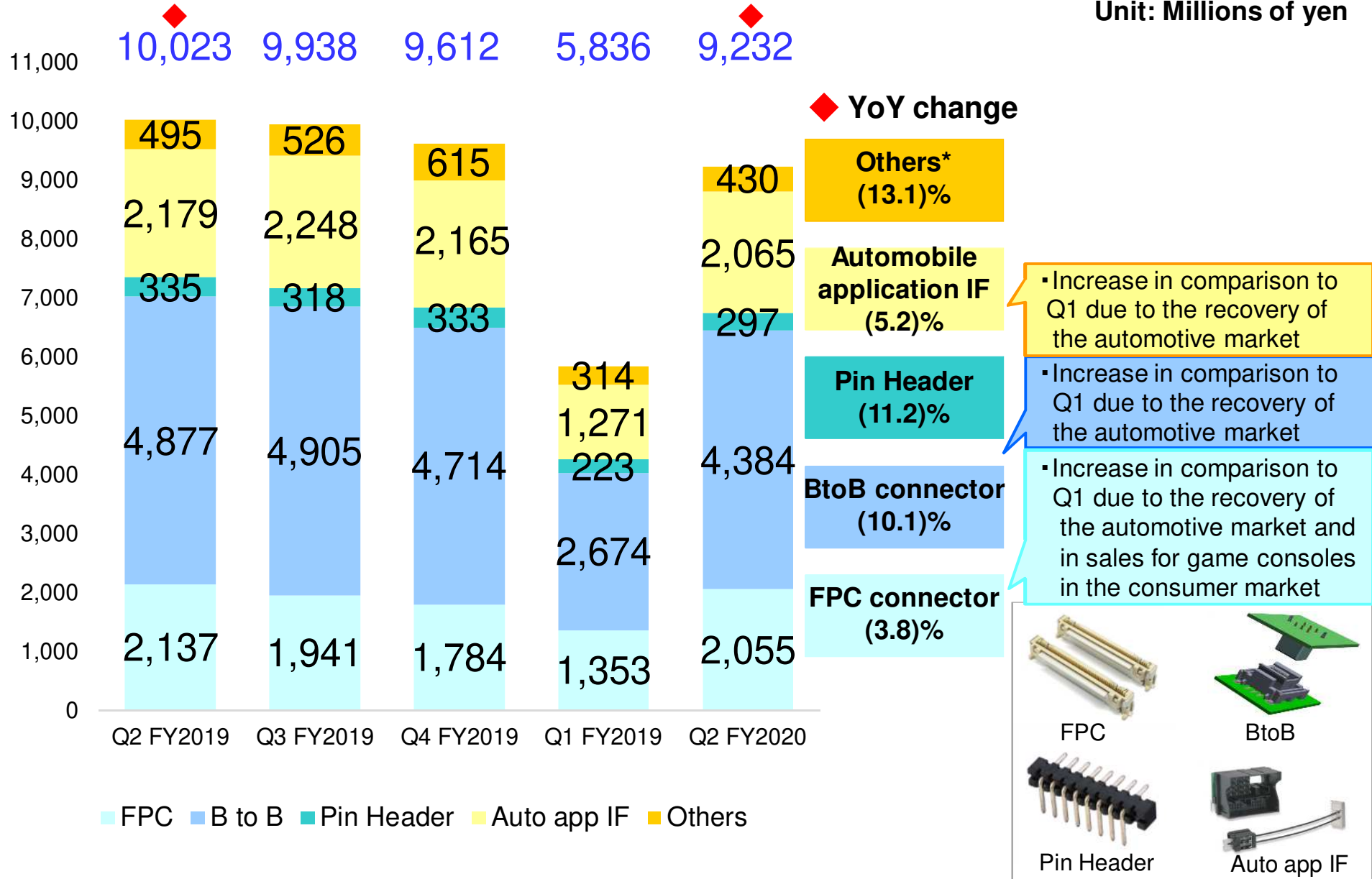




7. Net Sales by Product (Quarterly Trends)



Unit: Millions of yen



8. Consolidated Statements of Income (Cumulative) (YoY Change)



Unit: Millions of yen

	Q1-2Q FY 2019		Q1-2Q FY 2020		YoY change	
Net sales	20,064	100.0%	15,069	100.0%	(4,994)	(24.9)%
Cost of sales	13,411	66.8%	11,000	73.0%	(2,410)	(18.0)%
Gross profit	6,652	33.2%	4,069	27.0%	(2,583)	(38.8)%
SG & A	4,271	21.3%	3,895	25.9%	(375)	(8.8)%
Operating income	2,381	11.9%	173	1.2%	(2,208)	(92.7)%
Non-operating income	61	0.3%	80	0.5%	19	31.2%
Non-operating expenses	83	0.4%	177	1.2%	93	112.2%
Ordinary income	2,359	11.8%	76	0.5%	(2,283)	(96.7)%
Extraordinary income (loss)	(31)	(0.2)%	(45)	(0.3)%	(13)	43.3%
Pretax income	2,328	11.6%	31	0.2%	(2,296)	(98.6)%
Net income (for HQ stockholders)	1,670	8.3%	8	0.1%	(1,662)	(99.5)%
EPS	70.88yen		0.35 yen		—	
Exchange rate (USD/EURO/RMB)	108.99 yen/ 121.42 yen/15.75 yen		106.68 yen/ 121.36 yen/15.21 yen		(2.31) yen/ (0.06) yen/(0.54)yen	

9. Consolidated Balance Sheets (compared with the end of the previous year)



Unit: Millions of yen

	As of March 31, 2020		As of Sep 30, 2021		Increase /Decrease	Factors for increase/decrease
Current assets	32,395	53.4%	30,137	51.8%	(2,258)	Cash and deposits (1,247) Notes and accounts receivable(493)
Noncurrent assets	28,242	46.6%	28,055	48.2%	(187)	Property, plant and equipment (286)
Total assets	60,638	100.0%	58,192	100.0%	(2,445)	
Current liabilities	7,928	13.1%	6,731	11.6%	(1,196)	Notes payable and accounts payable(526) Accounts payable(580)
Noncurrent liabilities	1,190	2.0%	1,212	2.1%	21	
Total liabilities	9,118	15.0%	7,943	13.7%	(1,174)	
Shareholders' equity	51,217	84.5%	50,043	86.0%	(1,174)	Retained earnings(1,175)
Valuation/translation difference	(15)	- %	(132)	(0.2)%	(116)	
Minority interests	317	0.5%	337	0.6%	20	
Total net assets	51,519	85.0%	50,248	86.3%	(1,270)	Net assets per share 2,117.86yen (previous period 2,172.66 yen)
Total liabilities and net assets	60,638	100.0%	58,192	100.0%	(2,445)	



10. Cash Flows



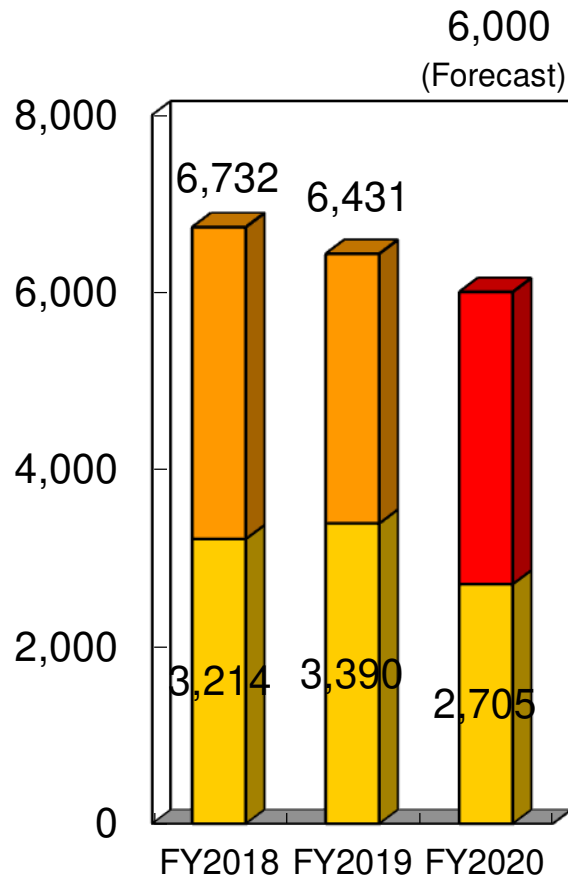
Unit: Millions of yen

	Q2 FY 2019	Q2 FY 2020	Increase /Decrease
Cash flows from operating activities	2,747	2,852	105
Profit before income taxes	2,328	31	(2,296)
Decrease (increase) in notes and accounts receivable - trade	19	511	492
Increase (decrease) in notes and accounts payable - trade	(23)	(514)	(490)
Cash flows from investing activities	(3,391)	(2,720)	671
Purchase of property, plant and equipment	(3,342)	(2,670)	671
Purchase of intangible assets	(47)	(34)	12
Cash flows from financing activities	(1,539)	(1,295)	244
Cash dividends paid	(1,419)	(1,183)	235
Purchase of treasury stock	0	0	(0)
Effect of exchange rate change on cash and cash equivalents	(339)	(84)	254
Net increase (decrease) in cash and cash equivalents	(2,523)	(1,247)	1,275
Cash and cash equivalents at beginning of period	15,456	13,819	(1,637)
Cash and cash equivalents at end of period	12,933	12,571	(361)

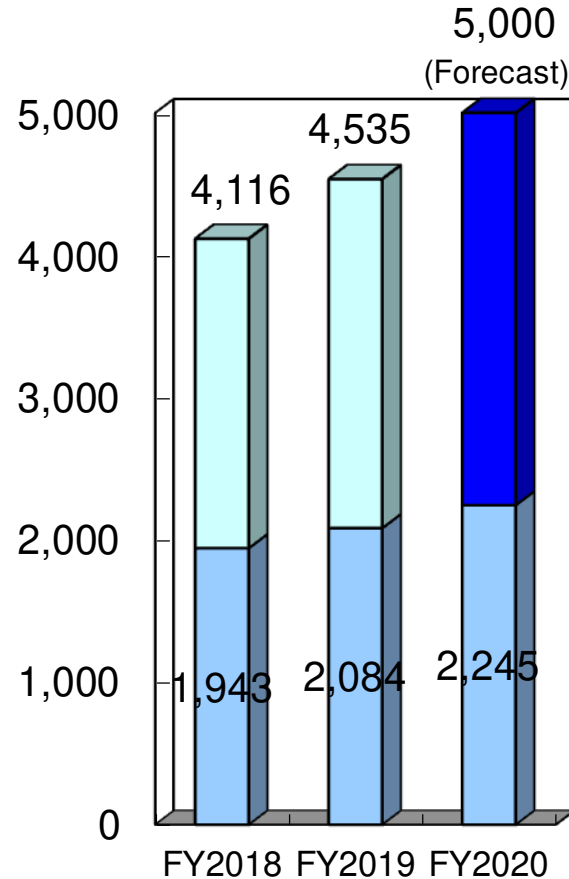
11. Capital Investment, Depreciation & Amortization, and Research & Development



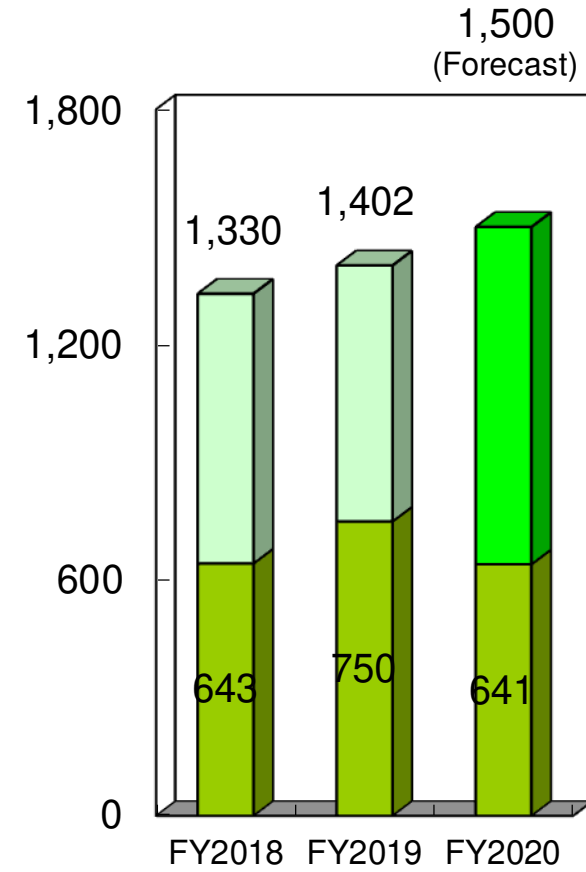
Unit: Millions of yen



Capital Expenditure



Depreciation & Amortization



Research & Development

Note: Each figure at the foot of bars shows the actual amount for the second quarter, and those at the top are for full year.

12. Topics: Development of High-Speed Transmission Connectors ①



Series in Development and Target Market

“Auto I-Lock™ FPC/FFC connector for 25Gbps transmission speed”: 11503 series

→ Differentiated products developed by integrating the company core technology “Auto I-Lock™” into high-speed transmission scheme.

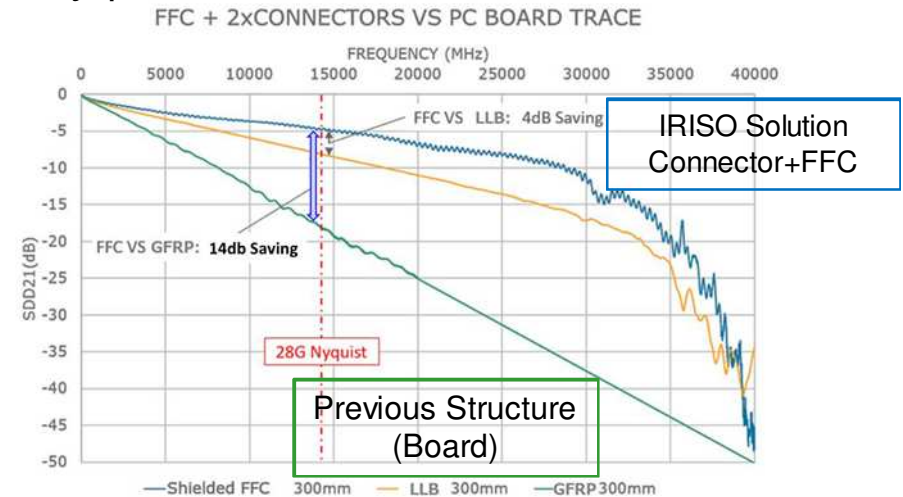
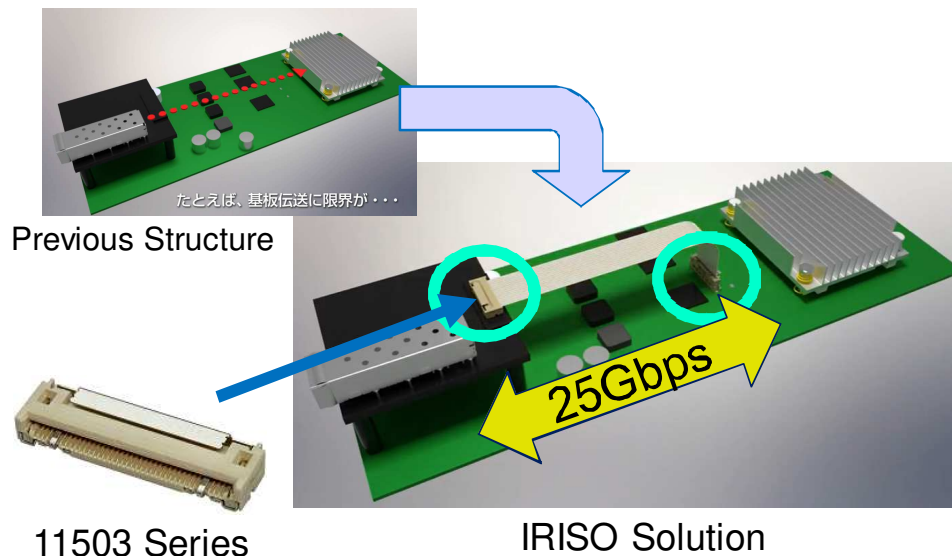
They ensure high-speed transmission path for 5G base station and devices such as servers.

Note: Auto I-Lock™ : Unique dropout prevention mechanism that automatically locks as FPC/FFC card is inserted

IRISO Solution

Boards for 5G communication need 25Gbps transmission speed.

Since it is difficult to meet this specification by transmission based on the board layout pattern, IRISO has created a solution to this problem by using Auto I-Lock™ that are very highly reputed by customers who adopt it for automated assembly together with FFC. We have proposed the solution to customers and received many positive feedbacks from them.



Connector's transmission characteristics superior to boards (the higher the line, the better the characteristics)

13. Topics: Development of High-Speed Transmission Connectors ②



Series in Development and Target Market

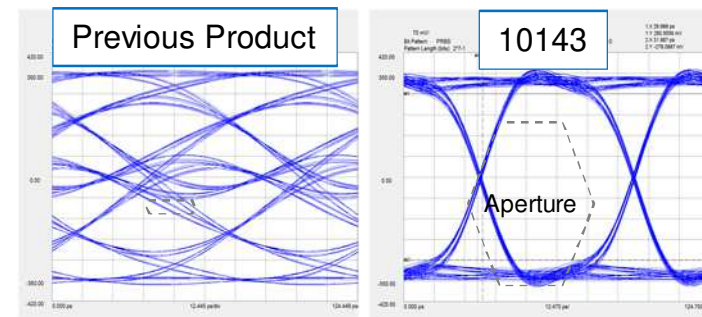
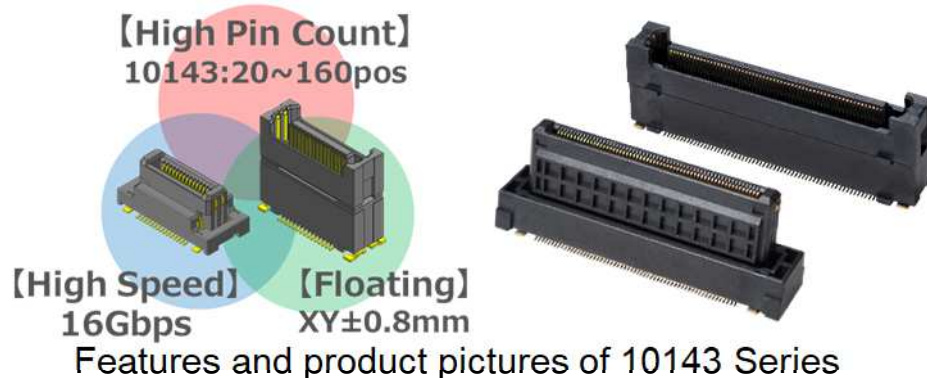
“Floating BtoB connectors with power terminal for 16Gbps transmission speed”: 10143 series

→ Differentiated products developed by integrating the company core technology “floating” into high-speed transmission scheme.

They realize high-speed transmission between boards for devices such as automotive applications, industrial equipment and 5G base station.

IRISO Solution

As ADAS and multi-function vehicle have been promoted by car evolution, high-speed transmission scheme has been adopted even for automotive applications. To meet this demand, IRISO has been working on the integration of a floating mechanism and high-speed transmission. As a result, IRISO has successfully developed the world's first floating BtoB connector that allows for both 16Gbps transmission speed and a large floating amount of x, y ± 0.8 mm. This connector also has a power terminal and contributes to miniaturization. High connection reliability based on the floating mechanism and utterly unique high-speed transmission scheme are available not only for automobile applications but also for industrial equipment and communication devices. IRISO has received a lot of positive customer reviews.



Transmission characteristics superior to the previous product (16Gbps eye pattern: the bigger the aperture, the better the characteristics)



I . Summary of the consolidated Financial Results for Q2 of FY 2020

II . FY2020 Financial Forecast and Company Initiatives



1. FY 2020 Revised Plan



Unit: Millions of yen

- The second wave of the COVID-19 infections across Europe and others is now our great concern, and there is no knowing what may happen later. However, the plan is revised upward as the market has been recovering more rapidly than initially expected.
- By cost reduction and strict cost management, operating income as profitability is expected to greatly improve from 1.2% in the first half of FY 2020 to 13% in the second half of FY2020.

	Results of FY 2019	Initial targets for FY 2020	Revised Plan of FY 2020
Net sales	39,614	34,000	34,500
Operating income	4,628 11.7%	1,400 4.1%	2,700 7.8%
Ordinary income	4,668 11.8%	1,400 4.1%	2,600 7.5%
Net income	3,287 8.3%	1,100 3.2%	1,800 5.2%
EPS	139.49yen	46.68yen	76.38yen
Average exchange rate during the period	USD109.10yen EURO121.13yen RMB 15.66yen	USD108.00yen EURO120.00yen RMB 15.80yen	USD108.00yen EURO120.00yen RMB 15.80yen

2. Company Initiatives for Second Half of FY2020, and FY2021 and Beyond



- **Market Trends** ... As for the second wave of the COVID-19 infections, there is no knowing what may happen later.
 - The automotive market has been recovering steadily.
 - Vehicle manufacturers/ parts manufacturers have been more actively involved in electrification than expected.
 - Sales for game consoles and TV in the consumer market are expected to increase.

- **Company Initiatives**
 - We have been working hard to achieve the following themes of the mid-term management plan that was announced in August 2020.
 - ① “Overcome the Covid-19 Impact, get back on the growth trajectory
 - ② “Establish a bridgehead for reaching the long-term goal (100 billion yen sales) based on our long-term vision”
 - Especially, as car electrification has been promoted worldwide, new global projects have been launched in the powertrain market that we have strongly focused on. Sales activities mainly including “anti-vibration service” are implemented by integrating “Z-Move[®]” into vibration simulation service.
 - Company systems such as the one for production have already been improved enough to handle 50 billion yen sales, and there is no need of large-scale investment. However, rationalization investments for cost reduction and expenditures for new product development to increase future sales and outcome are proactively promoted.



3. High Priority Goal (Repeat of the Mid-Term Plan)



- Overcome the COVID-19 impact to **get back on the growth trajectory**
- View the three years as a period to establish a bridgehead for reaching the long-term goal (to go beyond 50 billion yen sales in FY2023)

Boost Sales

① Strategic segmentation + Global enhancement

② Strong promotion in the automotive market (PA25)

Note: PA25 is a project for 5 applications for safety, powertrain, motor, infotainment and two-wheeled vehicles

③ Early establishment of the second pillar and industrial market (5G, Robot)

Reinforce Management Base

④ Improve technological innovation capability with emphasis on floating technology

⑤ Increase production capability, cost competitiveness and quality competitiveness

⑥ Strengthen management infrastructure



① Strategic Segmentation + Global Enhancement

- Define market segments and dominate them by applying different strategies to each market
- Reinforce and support overseas sales organisation
- Provide one-stop shopping experience with the fastest action in the industry

	Existing Technology / Market	New Technology / Market
New Target Area	<p>Dominate product differentiation and customised products</p> <p>Industrial Others in automotive</p>	<p>Attack new applications anticipation of customers' and market needs</p> <p>PA25 Robot AI 5G</p>
Leverage Existing Target Area	<p>Protect value added products and cost competitiveness</p> <p>Consumer Industrial Others in automotive</p>	<p>Leverage New applications anticipation of customers' and market needs</p> <p>PA25 Robot AI 5G</p>



② Strong promotion in automotive market (PA25)

- ◆ Boost sales in the growing PA 25 area
 - Powertrain
 - Safety
 - Infotainment

Provide solutions for vibration resistance
(simulation + Z-Move®)

High-speed transmission connector

③ Early establishment of the second pillar and Industrial market (5G, Robot)

- ◆ New product development such as 5G, IoT etc. to meet new market needs and dominate the market
- ◆ Increase coverages for global key customers buying industrial machines
- ◆ Provide a wide range of sales channels for different customers and markets with different demands

Global enhancement and one-stop shopping experience with the fastest action in the industry



④ Improve Technological Innovation Capability

◆ Provide innovative connecting system by leveraging floating technology

- No.1 company in the industry and development of only-one product
 - Provide customers with one-stop shopping experience with the fastest action in the industry

■ Product development to add values

- ① High-speed transmission
- ② High current / High voltage
- ③ Weight saving / Minitualized
- ④ Multipolar
- ⑤ Automated
- ⑥ Expand interface product lineup

Suggest solutions by anticipating customers' needs and providing advanced technology products



⑤ Increase production capability, cost competitiveness and product quality competitiveness

◆ Improve manufacturing process

- ① Standardize equipment and toolings
- ② Purchase parts locally and promote local production for local consumption
 - Start preparation for construction of Mexico Plant as market situation allows

◆ Increase cost competitiveness, improve production capability

- ① Promote the smart factory concept
- ② Continuous effort for cost reduction including design standardization
- ③ Reduce production lead time and development TAT (target of 30% reduction)

◆ Improve quality

- ① Ensure good supplier management / quality assurance system
- ② Reduce and control product contamination by pursuing cleanliness



⑥ Strengthen Management Infrastructure

◆ Strengthen Management Infrastructure

① BPR promotion and global system construction at the same time

◆ ESG+

① Activities to get to zero CO2 emission in 2030

- Installation of solar energy facilities started (Nantong Plant) during FY2020

② Leverage diverse human resources and personnel development

③ Reinforce corporate governance

- Promote resilience management
(evolve BCP to respond to the COVID-19 pandemic, etc.)



Company name	IRISO ELECTRONICS CO., LTD.
Business description	Manufacture and sales of various types of connectors
Establishment	December 1966
Number of employees	3,369 (as of March 31, 2020)
Capital	5,640 million yen (as of March 31, 2020)
Headquarters	2-13-8, Shinyokohama, Kohoku-ku, Yokohama, Kanagawa
Operations	
Domestic	Headquarters, Fukushima, Ibaraki, Aichi, Osaka
Overseas	Singapore, Hong Kong, U.S.A., Germany, Thailand, South Korea, China (Shanghai, Dalian, Tianjin, Suzhou, Shenzhen, Chongqing), Malaysia, Taiwan, India
Research & development	Headquarters (IRISO Technology Park), Kawasaki(Production Technology Development Center),Shanghai R&D Center
Manufacturing plants	Japan(Ibaraki), China (Shanghai, Nantong), Philippines(Manila), Vietnam (Hai Duong)