

Q&A Summary of the IR Business Briefing of Furukawa Electric Co., Ltd.

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Contents: Electronics Component Materials business

Speaker:

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Q: Concerning the general use products, what is the possibility for further consolidation, including alliances with other companies?

A : In the Electric Conductor Division, there are commodity products and low volume high performance products, and we believe this will not change in the future. Also, in 2011-2012, we consolidated the Chiba Plant into the Mie Plant, and presently, the Mie Plant is operating at a relatively high rate.

Q: After the market recovers, what profit level will you aim to achieve in the business as a whole?

Regarding copper strips, I feel the lower earnings caused by falling volumes has become more limited, but what is your look? Also, have you made any progress in improving the product mix?

Regarding electric conductors, can the existing earnings level be maintained, and what measures will you take to ensure this?

A : Overall, the trade friction between the US and China in FY2019 had an impact on magnet wire and copper strips and the COVID-19 pandemic had a major impact on the entire business

in the first half of FY2020, and these factors caused profits to fall. However, orders have been recovering in the second half, and although there are risks in terms of trade problems between the US and China and a 3rd wave of COVID infections, we expect a large improvement compared to the first half. We will aim to achieve a V-shaped recovery in FY2021.

In the Copper & High Performance Materials Products Division, electronics and automotive products are the main markets, and including our alloy development capability, we anticipate single-digit (JPY billion) profits. We are forecasting growth of around 30% for the automotive products market, including vehicle electronics, following the advancements in vehicle electrification and at least double-digit growth for data centers and automotive battery applications. We will focus our efforts on these markets. Also, compared to the past, the effects of the revisions to our monozukuri and the activities of the Transformation Division are being realized. We will work to further reduce fixed expenses, lower the breakeven point and maximize earnings. Given the changes such as 5G and CASE, there is room to improve the product mix in the future. Although it is still low, we will increase the ratio of high value-added products and strengthen the business structure.

In the area of earnings improvement, volumes need to be increased in the Electric Conductor Division, but the market is currently challenging in terms of increasing volumes. In the Electronics Component Material segment as a whole, in order to return profits to the FY2018 level (operating income of JPY 6.0 billion), it will be necessary to reduce the cost of manufacturing in addition to increasing volumes. From the perspective of business division profits, the ratio of sales within the group (electrical wire, magnet wire, etc.) is large, and I believe it is necessary to look at the business potential in combination with the earnings in these businesses.

Q: What specific applications will drive the growth and higher profits in electronics and automotive products?

A: In automotive products, given the requirements for lightweight and smaller size, we are focusing on products that leverage the alloy characteristics, such as low insertion (easy to insert and remove) plated terminals following the multipolarization of components and battery current sensor applications. In electronics, following the advances in vehicle electronics in addition to the advances in smartphones and computers, there are increasing requirements for high strength, highly conductive materials in response to the demands for modularization and smaller size. Also, the high purity and high quality of our oxygen free copper strips are strengths, and we intend to attack the automotive and electronics markets.

Q: What are the applications and customer composition in the main businesses?

A : In the Electric Conductor Division, sales within the group account for 60%. The sales breakdown (including outside sales) is 60% to the electrical wire market, 30% to the heavy magnet wire market and 10% to other markets. Volumes for aluminum harnesses are still low, but they are growing. In the magnet wire (fine) business, the electronics and automotive markets are the main targets. In the Copper & High Performance Materials Products Division, sales for electronics related applications, including automotive products, account for about 40%.

Q : What is your growth strategy in the magnet wire business?

A : The heavy magnet wire business is being operated as a joint venture, and we are responding to customers in Japan, Europe and China through a network of 14 locations. For the Japanese customers, the Electric Conductor Division is supplying the material used for the heavy magnet wire. In the fine magnet wire business, we are targeting the electronics market such as the smartphone and have a high market share. Going forward, we will maintain the volumes and earn strong profits.

Q : What is your outlook for profit levels and future growth of oxygen free copper? I believe it was mentioned that your low cost is a strength, but what differentiates your products from those of other companies?

A : In terms of oxygen free copper strips themselves, other companies have similar products, but products with characteristics such as GOFc in particular are a strength. It is high purity and JIS certified, and we are targeting customers for whom we are the only option. Also, our manufacturing process utilizes a shaft furnace, and we have advantages in terms of cost. The Electric Conductor Division is also manufacturing oxygen free copper wires using a manufacturing method called SCR, and here, too, we are superior in terms of cost. We also have additional manufacturing capacity and can offer reassurance in terms of supply to customers in the growing automotive market (supply including use in heavy magnet wire provided through the joint venture).

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