

Q&A Summary of Conference Call for Institutional Investors and Analysts on the Furukawa Electric Group

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Contents: FY2018 Q3 Financial Results

Speaker: Director, Corporate Executive Vice President, and General Manager of the Finance & Procurement Hiroyuki Ogiwara

Q : You mentioned that the competitive environment for optical fiber and cable products has deteriorated, but what is the situation in North America? Also, please provide details on the changes in optical fiber shipment volumes and other matters.

A : Regarding the deterioration of the competitive environment, this feeling has occurred not just in North America but around the world. The environment in North America is not improving, but it is also not getting worse. The situation has not changed much.

Concerning optical fiber shipments worldwide, shipments fell 10% year on year in the third quarter. However, when looking at the cumulative results through the first nine months of the year, shipments are 5% higher year on year. Although shipments have fallen by nearly 20% compared to the first and second quarters, they are expected to increase 15% in the fourth quarter compared to the third quarter. The third quarter was the bottom, and the trend towards smaller cores is one factor. Concerning EMEA, shipments fell slightly year on year in both the third quarter and through the first nine months of the year.

Q : Concerning electronics products, both copper and copper alloy products and functional products appear to have declined less than other companies in the third quarter. Is there any particular reason for this?

A : Electronics products achieved good results overall in the third quarter, and memory discs for data centers were strong. However, data centers are being impacted by the delay in next generation CPU development, and until this problem is resolved, data center investment will likely be limited. Although our memory discs were strong in the third quarter, there is the risk that inventory may be piling up at our customers. Although the products are simply stated as for data centers, depending on how close in the supply chain the customer is to the data center, the timing of the impact will likely differ.

Q : Is North America the reason for the decline in optical fiber shipments in the third quarter?

A : Yes, shipments have fallen compared to the second quarter.

Q : Optical cable shipments to North America have fallen from the first through second quarter. What about quarters three and four?

A : In the third quarter, shipments, including optical fiber products, have fallen significantly. In particular, shipments to major customers fell in the third quarter due in part because it is the end of the fiscal year in North America, but shipments in the fourth quarter are expected to return to the same level as the first and second quarters.

Q : What is the reason for the downward revision to the full-year forecast for Communications Solutions? Is the FITEL business part of the reason in addition to optical fiber and cable products?

A : In Communications Solutions, the weakness of OFS in the third quarter was the main factor. Otherwise, there are no major changes.

Q : Was Energy Infrastructure profitable in the third quarter on an actual basis?

A : Regarding Energy Infrastructure, please look at the third and fourth quarters together. The outlook has not changed greatly from the first half. In the fourth quarter, profit is expected to decline at the overseas affiliates, but this is being partially covered by the improvement in the industrial cable business in the second half. However, it is likely too early to say that Energy Infrastructure is profitable on an actual basis.

Q : I understand that Automotive Products & Batteries is strong overall, but please give me a breakdown of the main factors behind this, such as the situation in each region. Also, is it expected to remain strong next year?

A : When looking at the production sites, both those in Japan and overseas are growing, and overall, the results were good. We have received orders through several years into the future, so FY2019 is not expected to differ much.

Q : You are planning to increase the production capacity for optical fiber and cable products, but given the recent demand situation, please provide an outlook for profits following the increase to production capacity.

A : Investments by customers involved in 5G are slightly delayed. Also, our customers have been unable to aggressively invest as the result of M&A and other circumstances, but I believe the timing of the 5G investments will arrive heading into 2020 and 2021. While observing the demand trends, we will adjust the plan, such as delaying the timing of the capacity expansion.

Q : You mentioned that the competitive environment for optical fibers and cables products has deteriorated worldwide. Is China behind this deterioration?

A : China is believed to be one of the factors, but given that fiber shipments to EMEA declined slightly, it feels as though there is also no rush in Europe to the make 5G related investments. For us, the impact of the slower investments in China has had a limited impact as I explained earlier, but the impact to other regions seems to be appearing.

Q : It appears that the limited negative impact from smartphones and automotive products is behind your ability to maintain the full-year forecast announced in the second quarter.

A : Automotive products are mainly for Japanese automotive manufacturers. The automotive products are produced in China as well, but Japanese companies are the main customers.

Q : Concerning optical fiber and cable products in North America, is there a chance that you are misreading the demand to your major customers?

A : Fiber shipments to North America fell in the third quarter. However, they have recovered since January, and I am not worried. We have also received cable orders, and the outlook has improved compared to one month ago.

Q : Is Energy Infrastructure likely to be profitable in FY2019 once the unprofitable projects and provision for loss on construction projects disappear (from this year)?

A : Although improvements are expected at overseas affiliates, construction projects are expected to increase in Japan and industrial power cable & power cable accessories is expected to improve, it will probably still be difficult to turn a profit. We will work towards achieving an operating income of JPY 1 billion in FY2020.

Q : Are any of the initiatives being taken by your company starting to bear fruit, such as improvements to the product mix?

A : Industrial lasers have started contributing to profits. Inquiries have also increased. Also, rollable ribbon cable has become better known in North America, and we will begin a full-scale effort to expand sales. The development of the forward looking onboard vehicle radar is complete, and it is being marketed to customers. Also, as a result of improvements to the product mix, the profit margin of Electronics Component Materials is gradually increasing. Our initiatives are starting to bear fruit.

Q : As the market environment changes, what are your thoughts about the balance between investments and cash flow?

A : Capital investments will peak at JPY 54 billion in FY2018 and then decline to the JPY 40 billion level in FY2019 and FY2020. Also, FCF will be slightly positive again in FY2018, and once the capital investments fall from FY2019, FCF will increase.

Q : In Functional Products, do you expect any of the businesses to deteriorate in the fourth quarter?

A : Copper foil for circuits is weak, and tape for semiconductor process is expected to deteriorate compared to the third quarter. Memory disks are expected to fall significantly in the fourth quarter. Depending on the customer differences and how close the customer is to the end user, the impact will likely differ.

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