

Q&A Summary of the Meeting for Institutional Investors and Analysts of the Furukawa Electric Group

Date: November 5, 2019 (Tuesday) 17:00 – 18:10

Contents: FY2019 Q2 financial results

Speaker: **Keiichi Kobayashi**, President (Representative)

Hiroyuki Ogiwara, Representative Director, Corporate Senior Executive Vice President, and General Manager of Transformation Division

Ken Maki, Director, Corporate Vice President and General Manager of Strategy Division

Akihiro Fukunaga, Director, Corporate Vice President, and General Manager of Finance & Global Management Division

Q : What are your thoughts about the restoration of the copper foil product line in Taiwan in light of the impact of the fire?

A : Without focusing on copper foil for automobile lithium batteries, we are focusing on copper foil for circuits, which can obtain added value. At this time, we are not thinking about completely restoring the facilities to their previous level. We will shift the business model to focus on added value products by improving the product mix.

Q : Compared to the first half, what are the factors in the income increases or decreases by segment in the second half?

A : Communications Solutions: Within the JPY +1.4 billion, when the increased depreciation and R&D expenses of JPY ▲0.5 billion are excluded, it is actually an increase of JPY +2.0 billion (Estimates in the breakdown of the increased income: Improved optical cable productivity in North America JPY +1.7 billion, Increased new digital coherent products JPY +0.5 billion, BBS JPY +0.5 billion)

Energy Infrastructure: Increased income from improved productivity and the start of operations at the No. 2 plant

Automotive Products & Batteries: Increased income resulting from the seasonal nature of batteries

Electronics Component Materials: Increased income from improved productivity

Functional Products: Increased income from a recovery in the data center market

Q : What is the impact of the delay in improving productivity in the North America optical

cable business in the first half? Has this delay already been resolved?

A : A negative impact of about JPY▲1.7 billion. We were unable to respond to all orders, and costs were also incurred. In July, measures were taken, including sending a Production Manager and others from Japan. The situation is still not a perfect 100, but from August, progress has been made, such as reducing the lead time.

Q : Optical fiber and cable competitors in North America are saying demand in North America is weak, but does this mean (only) Furukawa Electric is receiving orders?

A : They are targeting different segments and products. We are strong in the project market. We have also concluded long-term contracts with CATV customers, and shipment volumes are being secured.

Q : Prices of general use optical fiber and cable are falling. When do you expect prices to recover?

A : In a fiber demand environment such as this, companies will start to disappear going forward. We are making investments in order to reduce costs directed at full-scale 5G growth from FY21, and we expect that framework to be established in the second half of FY20.

Q : You stated that you will not follow the falling prices of optical fiber and cable, but how heavily weighted are you in general use products? Also, how far have the prices of general use products fallen?

A : We have not easily followed in dropping our prices. We are taking steps to thoroughly lower the cost of manufacturing, and if a profit can be realized, we will accept the order (even for general use products). Regarding the weight of general use products, because the definition differs depending on the market and customer, it is difficult to provide an answer. Concerning prices, they have dropped significantly in China, which accounts for more than half of the global market, and globally, prices have fallen by an average of about 40%.

Q : Concerning wire harnesses in Automotive Products, I have heard Furukawa Electric's aluminum wire harnesses will be adopted in over 50 vehicle models in FY2022. How much do you expect sales to increase?

Also, I would appreciate if you could provide some background as to why your aluminum wire harnesses are evaluated so highly.

A : On page 11, compared to the lowest point in FY19, net sales are expected to increase 25% in FY23. In regards to our aluminum wire harnesses, I believe that for both the aluminum wires, which is a kind of material and the alpha terminals, which is one product that differentiates us, the fact we can conduct in-house everything from the planning of the alloy design of the materials to match the customer's usage and processing situation is one of our strengths.

Q : Will you sell the aluminum wire harnesses and alpha terminals as a set, in principle?

A : That is correct. We intend to move forward with creating a defacto standard so that other manufacturers will be able to use them, too.

Q : Concerning the Transformation Division, I understand you are expecting a triple digit (100 million yen) improvement next year, but is it safe to assume a net increase of at least 7 billion yen?

A : Improving productivity in the North America optical cable business and reducing costs are also themes of the Transformation Division's activities, and the members of the Transformation Division are following up on the various improvement measures being promoted by the business division managers. I feel the speed of the improvements has actually increased.

In terms of the net increase, I cannot say it will be triple digits at this time, but if the improvement effects of the various measures are realized, it will certainly be triple digits.

Q : When looking at the increases and decreases in optical fiber shipments, how will they be when looking at the first half and second half of FY2019 separately? In North America, I cannot imagine CATV businesses increasing their capital investments, so do you expect volumes to new customers will increase?

A : Optical fiber shipments in North America will increase slightly in the second half compared to the first half. Rather than increased shipments to new customers, the increase should be viewed as our ability to ship the portion of existing orders that were unable to be filled due to production problems.

Q : In the Automotive Products business, Q1 was higher income on decreased revenue. Given that net sales in Q2 were on the same level as Q1, what is the reason for lower income?

A : Differences in the product mix is one reason. Also, the reason income will be challenging

in the second half is increased depreciation expenses in addition to increased costs related to the timing of new vehicle launches.

Q : Regarding the JPY ▲7.0 billion yen downward revision to the full year operating income forecast (from JPY 10.0 billion to JPY 3.0 billion) in Communications Solutions, what is the image when breaking this down into separate factors? Also, starting from the JPY 3.0 billion this fiscal year, when looking at FY2020, what are your thoughts about the factors other than the production improvements in North America?

A : Concerning the Optical Fiber and Cable Products business, the delayed improvements to cable productivity in North America has had a negative impact of about JPY ▲1.7 billion, falling optical fiber prices has had a negative impact of JPY ▲3.0 – 3.5 billion and the exchange rate effect is about JPY ▲0.7 billion. In addition, the stagnant telecommunications projects in Thailand in the Broadband Solutions business and the increased R&D expenses directed at next generation products are also factors in the downward revision.

Concerning the productivity issues in the North America optical cable business, we should be able to restore production to the original level in the second half of this year, and we are considering to what extent we will be able to build on that next year. However, I am unable to give any figures at this time.

In relation to global fiber prices, the prices of general use products will continue to fall, but if there is movement in data center demand from Q4, for optical fiber and cable, too, I believe it will be a chance for us to expand sales of products in which we have superiority, such as rollable ribbon.

Q : How much do you expect Functional Products to improve from Q3 to Q4?

A : Regarding the Copper Foil business, it will be partially restored from January. In terms of net sales, Thermal Management Solution & Products will recover by more than 10%, and Memory Disk will recover by slightly less than 20%. However, there will not be much variation in Copper Foil, Tape for Semiconductor Process and other businesses. Also, even if data center demand recovers, the smartphone and personal computer markets will be weak.

Q : If the dividend is kept at JPY 85, the payout ratio will exceed 50%. What are your thoughts about the dividend?

A : If we can secure sufficient cash flow, we want to maintain a stable dividend. There may be gaps in the timing, but CASE will be necessary for "Smart X", and 5G infrastructure will be required for that. At that time, our company's technology and products will definitely be

necessary, so based on faith in our future strategy and growth, we have left the dividend unchanged.

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