

Q&A Summary of Conference Call for Institutional Investors and Analysts of Furukawa Electric Co., Ltd.

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Contents: FY2019 Q3 financial results

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

Q : Concerning the Communications Solutions market environment, what is the market and price situation for optical fiber and cable and the current status of the digital coherent products?

A : The optical fiber market is mostly in line with the previous forecast. Volumes are increasing in North America, while China is stagnant. In Europe, although volumes are increasing, prices have fallen significantly, and the market environment is challenging. Our fiber shipments through the third quarter have followed the same trends as indicated in the forecast. Shipments have increased over 20% in North America and fallen slightly less than 20% in Central & South America. Although the Europe market is expanding, we have not followed the falling prices, so shipments have decreased slightly less than 30%. Shipments are about 20 – 30% lower in the Asia Pacific region. Japan is generally unchanged from last year. Chinese companies have also entered the Central & South America market, and the price competition is becoming fiercer.

In terms of share by region, North America accounts for 60%, Central & South America and Europe account for around 10% each, and Asia Pacific and Japan account for about 10% in total.

The demand for digital coherent products is strong. However, there has been a delay in our development and manufacturing, and we have been unable to respond to all of the requirements. Concerning the shipments of new products this year, while we forecast an increase of over 50% compared to last year, shipments are now expected to increase by slightly less than 40%. We are about 3-4 months behind.

Q : Which demand segments are growing in North America?

A : As already explained, shipments for the project market have been firm. Data center related demand has also been strong.

Q : What is the status of the restoration of the Taiwan plant in the Copper Foil Division, and what is the impact on the results?

A : When the results for the first half were announced, it was explained that the impact of the fire at the copper foil plant in Taiwan would be about JPY ▲2.5 billion for the year (JPY ▲1.6 billion impact on operating income and an extraordinary loss of JPY ▲0.9 billion). However, the impact is now expected to be about JPY 3.0 billion.

Production at the plant fell from 1,000 tons/month before the fire to 400 tons/month following the fire. Initially, it was planned to return production to 550 tons/month by the end of January, but this is presently expected to take until the end of March to achieve. We are not thinking about fully restoring production, and there is no change to the planned shift to high value added products. We will first work to securely restore the production. Although it is slightly behind schedule, production is increasing.

Q : Concerning the lower income in Communications Solutions, how does it look after breaking it down into individual factors? Also, what is the impact of the falling prices in North America?

A : In Communications Solutions, the operating income forecast was revised down by JPY 3.0 billion. Of this amount, JPY ▲2.5 billion is attributable to the Optical Fiber and Cable Products business, and of this, JPY ▲1.3 billion is due to the market deterioration caused by falling prices. The remaining amount is the impact of the delay in improving productivity, and the external factors and internal factors each account for about half. Concerning the remaining JPY▲0.5 billion, it is due to the delay in starting mass production of the next generation digital coherent products. Prices in North America have not fallen as far as they have in other markets, but the 5% drop compared to last year has widened to about 10%.

Q : In Energy Infrastructure, I saw a press release stating that you have received an order for a submarine cable project in Indonesia. How much and when will this project contribute to earnings?

A : The project involves the installation of an inter-island submarine cable connecting Bangka Island with Sumatra Island in Indonesia. A 150kV cable will be used, and the total route length will be 108km. The overall project is valued at JPY 11.0 billion, and we have received an order for about half of this amount. I am unable to discuss profit margins, but it is a full turnkey contract. We will conduct everything from installation to the related construction work, so we expect to earn a secure profit. Regarding the timing, due to contractual obligations, I cannot provide any details, but it will be around the first half of the next Mid-Term Management Plan.

Q : I understand that optical fiber and cable prices have fallen ▲5-10% in North America.

Is this a comparison with last year's prices? Also, given the prolonged optical fiber and cable production problems, has there also been any impact on the orders?

A : It is a comparison with last year. I believe some orders have been lost to competitors due to the ongoing production problems, but we have received orders for products including high density cable using rollable ribbon cable. I do not think there has been that large of an impact. Orders were also strong recently in January.

Q : I understand that the delay in improving optical cable productivity in North America had an impact of JPY ▲1.7 billion on operating income in the first half and is expected to have an impact of JPY ▲1.2 billion in the second half. This is despite taking steps to improve the situation, including dispatching managers from the Manufacturing Division in Japan. Can you really expect to realize improvement going forward?

A : There were signs of improvement that appeared around September, but they did not last. Given this, it was decided to station a Corporate Vice President in North America as EVP, Global Operations for Fiber & Cable Technology. It is true that the expectations for improvement were overly optimistic. Net sales in January have recovered to the levels of strong performance in FY2017, so we will achieve solid results in the fourth quarter.

Q : In Functional Products, I understand that data center products are recovering from the fourth quarter. Specifically, which products are recovering?

A : First, thermal management products have improved. Memory discs will be slightly slower (due to the unique characteristics of the products) but are expected to improve into next fiscal year.

Q : Concerning Communications Solutions, what are the factors behind the major deterioration in operating income from a JPY 0.7 billion profit in the second quarter to a JPY ▲0.6 billion loss in the third quarter?

A : Mostly, it resulted from increased expenses due to the delay in improving optical cable productivity in North America and not participating in the price competition mainly in Europe and Asia. In the optical cable segment, there have also been some difficulties in launching new products.

Q : Concerning Electronics Component Materials, what are the factors behind the deterioration from a JPY 1.1 billion profit in the third quarter to the forecast JPY ▲0.1 billion

loss in the fourth quarter?

A : Expenses related to the business reorganization (of the Magnet Wire and Copper Tube businesses) of about JPY 0.6 billion have been incorporated into the forecast. Also, the risk of a slight downturn due to the impact of minor market deterioration in each of the businesses heading into the fourth quarter has also been incorporated.

Q : During the explanation of the first half results, you stated that you will aim to achieve a triple digit (100 million yen) improvement next year through the Transformation Division. How are these efforts progressing?

A : We expect an improvement of JPY 4.4 billion this year and will build on it next year. As stated, we are aiming to achieve a triple digit improvement, and the progress is generally as planned. Although these improvements are being realized, there are also issues such as the challenging market environments and our production problems. Directed towards a triple digit improvement next year, we will plan the improvement amount in the forecast and work to achieve those figures.

Q : Concerning the progress made by the Transformation Division in realizing improvements, what is the breakdown by business?

A : Compared to the plan, although the improvements in Optical Fiber and Cable Products underachieved slightly, the improvements in Energy Infrastructure exceeded the plan. Also, the effects of the companywide cross-sectional activity have slightly overachieved.

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