

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

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Content: FY2019 Financial Results

Speakers:

**Keiichi Kobayashi**, President

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**Q :** Is it correct to assume that optical cable productivity in North America has fully improved? Also, what impact is COVID-19 having on customers?

**A :** Against the productivity improvement target of 1.5 times, it has currently improved to about 1.25 times. Although productivity has reached a level at which we can respond to customer demand, we will work to achieve further improvement directed at the target of 1.5 times.

Concerning the impact of COVID-19, there has yet to be any major impact at this time, but we believe it is necessary to recognize the risk of project delays.

**Q :** What was the trend of each product in Functional Products from Q3 to Q4 in FY2019? Also, what is the outlook for Q1 in FY2020?

**A :** Net sales in Q4 were generally on the same level as Q3. Net sales of products for data centers and semiconductors are increasing due in part to the trend toward securing inventory, but on the other hand, there are also products for which net sales have fallen. Although profit steadily improved, the growth was limited due to a negative impact of several hundred million yen at the manufacturing subsidiaries caused by COVID-19 pandemic. In Q1, although data center demand will be strong, the pandemic is affecting the supply chain in various ways. We believe it is necessary to view the future with caution.

**Q :** For optical fiber, how were the shipment volumes and prices in each region in Q4?

**A :** Overall, volumes ended the quarter in line with the forecast. Worldwide, volumes were on par with last year, and by region, they were over +20% in North America, slightly less

than ▲20% in Central and South America, slightly less than ▲20% in EMEA, ▲40% in Asia Pacific and unchanged from last year in Japan.

Comparing Q4 to Q3, volumes were +10% worldwide, about +15% in North America, over +10% in Central and South America and about +5% in EMEA. However, within EMEA, Europe was about ▲20%, which cancelled out the increases in the Middle East and Russia. Asia was ▲40%.

Looking at the component ratios of the company's volumes by region, North America accounts for over 60%, Central and South America for less than 10%, EMEA for less than 20% and Asia Pacific & Japan for less than 10%.

Concerning the price trends, they were unchanged from Q3. Prices (compared to last year) were ▲20-30% in Europe and Asia, and the impact also started to appear to an extent in Central and South America in the second half. Prices fell by ▲30-50% in India and China, and although prices were firm in North America, the normal decline of about ▲3-5% was actually in the range of ▲5-10% last fiscal year. It will take some more time for prices to stop falling.

**Q : Regarding Page 27, what premise did you use for North America and China?**

A : Concerning the telecommunications demand line for North America and China, it is assumed that demand will basically track the movements in each country's GDP. Comparing North America and China, China is expected to recover more quickly. And, the market forecast is created by totaling the demand lines for the telecommunications industry in each of the four regions based on the total market share of telecommunications around the world, not just our company's market share, to create an image of how the market is expected to move globally.

**Q : Is it possible the demand itself will change as a result of COVID-19 pandemic?**

At the very least, based on the current situation, traffic levels are high in every country, so demand is expected to remain strong. However, there may be a short-term downturn due to projects being halted. Also, because our sites are located in North America, we believe it will be necessary to take steps to ensure the production locations remain operational and unaffected by COVID-19.

**Q : In the optical fiber market, demand is not particularly strong in North America. Were orders from your new customers strong? Also, the market in Japan appears to be strong, but has there been any change recently?**

A : In North America, demand from telecommunications carriers appears to be weak. Our

customers are data centers and the project market, and we have steadily become able to respond to the needs through the improvements to productivity. In Japan, there have been no major changes.

Q : What are the factors behind the upturn in the Communications Solutions segment (in Q4) ?

A : Improved optical cable productivity in North America contributed about 1 billion yen. In addition, digital coherent products and CATV products overachieved.

Concerning optical cable, by pursuing higher added value, such as ultra-high count, small diameter cable, we have been able to sell high value added products.

Q : Is the improved optical cable productivity in North America sustainable? Where are the issues, and what measures led to the improvement?

A : Several professionals have been dispatched from Japan. The former General Manager of the Optical Fiber and Cable Products business has also been transferred to the location in North America, and thorough efforts are being made to lift overall quality and productivity and shorten lead times. Although it is still a work in progress, the present improvement has been realized.

Q : Concerning the upturn in the Electronics Component Materials segment as a whole, what is the breakdown by product?

A : There was an upturn in each business. The copper strips business cannot be said to be satisfactory due to the inability to achieve the annual plan, but improvements to the product mix and productivity appeared in Q4. Also, cost reductions of 0.5 – 0.6 billion yen were achieved in the Electronics Component Materials segment as a whole.

Q : Concerning the action plan for FY2020, I believe the initiatives of the Transformation Division aimed at improving earnings target structural costs and productivity improvements. In the past, it was stated that the company will aim to achieve a triple digit (100 million yen) improvement in FY2020, but what does the current picture look like? Although COVID-19 will have an impact on the business, what level of improvement are you aiming to achieve through your own independent efforts?

A : Many of the products are positioned in the upstream parts of the supply chain, and we are currently assessing the future recovery scenarios. Through the activities of the

Transformation Division, we will continue to improve sustainable earnings and increase our ability to execute. Regarding capital investments, until the recovery scenarios become more certain, investments have been frozen with the exception of the investments in IT and for orders that have already been received. R&D expenses are currently under consideration with an eye toward the world after COVID-19 pandemic. Our current liquidity ratio in hand is still not sufficient, but we are conducting cash management, including CP issue recently. The activities of the Transformation Division are still in progress, and there is the impact of the pandemic this year. However it will be difficult to realize a triple digit (100 million yen) improvement this year, we will make efforts for the target. The benefits in FY2019 were split almost 50/50 between increased sales & price restoration and reductions to the cost of manufacturing, but it will likely be difficult to achieve benefits in terms of increased sales this year. In the event it is difficult to realize benefits through the action plan, people and efforts will quickly be shifted to fully executing the recovery plan. For this reason, although the monetary target will remain unchanged, the details may differ. Measures will also be taken by the COVID-19 Emergency Response Team. While incorporating the activity processes learned by the Transformation Division, we will strive to respond agilely as we move forward.

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