

## Q&A Summary of the (Online) Meeting for Institutional Investors and Analysts of Furukawa Electric Co., Ltd.

Date: June 11, 2020 (Thursday) 17:00 – 18:00

Contents: Progress of the Mid-term Management Plan

Speakers:

**Keiichi Kobayashi**, President

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

**Satoshi Miyamoto**, Director, Corporate Senior Vice President and General Manager of Administration & CSR 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 : Concerning the strategies for each business, how have they changed compared to before the impact of COVID-19 and one year ago?

A : ①Communications solutions: Concerning optical cable, there is stronger demand for space-saving, ultra-high count cable for data centers. Also the response to the solutions business, including MT connectors, has been reinforced.

②Energy Infrastructure: Since COVID-19, in particular, we are further shifting towards power cable for renewable energy. In order to respond to customer requests, we are working to increase the capacity of the installation teams.

③Automotive Products: Concerning how the overall supply chain will be changed based on the BCP, we have created a system that will enable us to manufacture the same product at multiple sites while shifting from a framework centered on manufacturing sites located nearby the manufacturing sites of our main customers.

Q : You expect to achieve over 50% market share of power cable for renewable energy applications, but will you be able to earn a profit?

A : Without being boxed in by a supply responsibility, we are responding only to orders that will be profitable. In the past, there was a case in which the project was accepted at a loss in order to gain access to the market, but since that time, we have not responded to such orders. Of course, there are concerns about the procurement costs during the period of coexistence with COVID-19 and post-COVID-19, but there is no change to our stance of

gaining recognition for our added value through improvements to our capabilities of manufacturing.

Q : Concerning the overall Communications Solutions business in North America, there has been talk recently of over-crowding on the networks, but has there been any definite movement in terms of investment?

A : Concerning communications solutions related investments in North America, no extreme brake has been applied to such investments. Data centers have been making solid moves. There are long-term contracts for cable TV, and the shift to FTTH and other trends are vigorously advancing. However, we do not have any clear information at this time, so we are still forecasting a range for net sales this year.

Q : In the optical devices business, I feel you have been unable to achieve sufficiently high profitability in the past due in part to the challenging competitive environment and the impact of falling prices. Going forward, with the emerging demand for next generation high speed communications, such as 400Gbps, can I assume that the phase will come in which you can achieve profitability?

A : We do not feel that earnings have declined due to fierce price competition. For ITLA, it is true that there was a temporary delay in the development of new products, but the large technical issues have already been resolved, and manufacturing stability has been established. We will expand our strengths.

Q : Concerning the image of net sales for FY2020 on page 29, there is a big difference between the upper limit and lower limit in the Communications Solutions business. Can you provide a little background for this difference?

A : The communications solutions market is broken down into 4 segments and then analyzed. In particular, there is large variation in the regions other than China, and the size of this variation differs depending on the country. In addition, we are operating on a more global scale compared to our other businesses.

Q : You stated that you will focus on IT infrastructure investments. Can you provide specific details?

A : While the emergency declaration was in effect and when the daily workforce particularly at the head office was limited to a minimum, the issues in relation to working from home

became apparent. We established the Digital Innovation Center (in April), and we are working to ride the wave toward digitalization, including personnel aspects. Presently, we are progressing smoothly toward a shift to cloud systems for working from home. In terms of manufacturing, we are working to utilize IoT and AI. We will accelerate these initiatives.

Q : You expect to supply aluminum wire harness for vehicles for 73 models of 8 manufacturers in 2023, but what is your scenario for sales growth through 2025? (Will it change from annual growth of 5%?) Also, please explain if the model based on covering demand from particular sites will provide operational benefits in terms of cost structure and just-in-time production.

A : Net sales growth forecast through 2023 has been based on the assumption that the aluminum wire harness usage ratio will increase to 30-40% from current 10%, by considering current order situation and industry trends. The market from 2025 to 2030 is still uncertain due in part to the impact of COVID-19. There is no doubt the trend toward lighter vehicle weight will continue, and it should be possible to expect growth of at least 5%. Also, considering the multiplexing of the supply chain, we feel how inventory (way it is held) and logistics (way it is transported) are handled will be important. We consider that responding to the multiplexing of the supply chain will provide added value for the customers, so we will make efforts to obtain their understanding.

Q : You are forecasting increased demand in the Communications Solutions, Power Cable and Automotive Products businesses, but what is your outlook going forward for the mid-term capital investments and free cash flow (FCF)?

A : In 2018 and 2019, large investments exceeding depreciation were made, and the majority of the benefits will be reaped starting in 2021. Going forward, we will control our investments using depreciation as one of the baselines. Although FCF was forecast to be JPY 15.0 billion for the three year period from 2018 to 2020, we generated free cash flow of JPY 24.3 in FY2018 – FY2019. FY2020 will be a difficult year due to COVID-19 pandemic, and we are aware that controlling FCF by compressing working capital and managing capital investments will be an issue. FY2020 will also be a key year including in terms of our continued survival. For the products that benefit society, such as batteries, we will make the necessary investments based on the market situation and timing.

Q : You have indicated that optical cable sales are expected to increase in North America, and the Rollable Ribbon type cable ratio is forecast to rise. What is the background for this

forecast, and can it be realized?

A : We are carrying out product development directed towards resolving the issues important to customers. The ultra-high count cable with 6,912 fibers and a diameter less than 40mm has high bendability and is easy to install. Following the advances in 5G, the forecast is based on our outlook that in the data center segment, customers will recognize the added value of this ultra-high count cable.

Q : Concerning the price increase for added value products as stated on page 6, can you please provide specific examples?

A : Advances are being made in all business towards thoroughly improving the product mix. For example, for the products in which customers recognize the value, such as magnet wire, power cable, copper strips and copper plates, we have worked to achieve an appropriate price. We will continue to move forward while listening to the customer, but we have decided to stop supplying the products based solely on the existence of competition. These improvements to the product mix are being carried out targeting all of the businesses.

Q : Concerning bipolar storage batteries, what are your future sales and profit targets, and about what percentage of market share will you aim to obtain? Also, will large-scale capital investments be required for mass production?

A : Based on our production technology capability and facilities status, we expect to start shipping samples from 2021 and products from 2022. Concerning the market scale and sales forecast, we are currently assessing the targets directed toward product launch in 2022. At the present time, we hope to use Furukawa Battery's plants in Japan for production. In the event we receive customer recognition for the battery's features of safe, compact and no air conditioning requirements and are able to secure orders that exceed current assumptions, it may be necessary to make new capital investments. Regardless, the basis for this decision will be the benefit to society, not a supply responsibility.

Q : Concerning bipolar storage batteries, how will the share of responsibilities be divided between Furukawa Electric and Furukawa Battery? In other words, how will net sales be divided between the companies?

What are your thoughts given the increased awareness of governance, including the establishment of a Conflict of Interest Management Committee?

A : We have just taken the first step forward toward the shipment of samples from 2021

and shipment of products from 2022. Furukawa Battery manufactures primarily vehicle batteries, and they have excellent technology for making lead batteries.

Our materials technology will contribute in relation to the bipolar structure and the flow of the metal and electrons. Furukawa Battery will be responsible for the battery itself, and Furukawa Electric will be responsible for the peripheral technology.

However, in order to ensure that the technologies of each company are fully combined, we are moving forward with joint creation while moving personnel around and without erecting any walls. The profit shares are still undecided, and we will consider this issue going forward while taking into account the contribution ratio and issues such as governance.

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