

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

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Content: FY2020 Q1 Financial Results

Speakers :

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

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

Q : What were the actual optical fiber shipment volumes by region in Q1? Also, what are the forecast growth rates for the full year?

A : In Q1, overall shipments were +5% compared to last year. They were slightly over +30% in North America, slightly under ▲40% in Central and South America, slightly under ▲40% in Europe, ▲70% in Asia and up slightly in Japan. Compared to Q4 of FY2019, shipment volumes were +5% overall, +5% in North America, slightly under ▲10% in Central and South America, slightly under +20% in Europe, ▲15% in Asia and slightly over ▲20% in Japan. Concerning the full-year forecast, compared to last year, shipment volumes are expected to be +15% overall, slightly over +30% in North America, slightly under ▲20% in Central and South America, ▲20% in Europe, unchanged in Asia and slightly over ▲10% in Japan.

Q : What is your outlook for optical fiber and cable market, including prices?

A : Prices will remain unchanged from the 5-10% drop in North America last year, and they are expected to fall by a little over 10% in Europe, Asia, Central America and South America. However, based on the status of the China Mobile tender, prices may fall slightly more. Given the trends such as safe harbor in India and anti-dumping in Europe, there may not be an immediate, large-scale impact, but competition is expected to increase.

Q : I understand that several of your overseas subsidiaries use a January-December fiscal year, but what level of impact will this have on each business?

A : The Chinese subsidiary in the Power Cable Division and 29 of the more than 30 overseas subsidiaries in the Automotive Products Division have adopted a January – December fiscal

year.

The impact of the differences in the fiscal year timing is particularly pronounced in the Automotive Products Division, and the impact of the lockout that occurred in several Asian countries during the period from April to June will be reflected in the Q2 (July – September) financial results.

Q : What assumptions have been used for the Automotive Products Division forecast?

A : Demand in the overall automotive industry is expected to be about 85% for the full year compared to last year. Given the differences in the fiscal year timing at the overseas subsidiaries as mentioned previously, demand is assumed to be about 90%.

Q : Do you foresee prices of optical fiber cable to continue falling from Q1?

A : We had expected prices to settle down compared to last year. Although there is not assumed to be any immediate, large-scale drop in prices, they will likely continue to fall to a certain level.

Q : In the North America optical fiber and cable business, which fiber and cable applications are expected to grow? On the other hand, despite this growth, what is the reason for the weak earnings forecast in the Communications Solutions segment?

A : Thin ultra-high count multi-core rollable ribbon for use inside and between data centers has been received well, and demand is strong. In addition, connectors, fusion splicers and the solutions business are also expected to grow. Including the reductions to the cost of manufacturing, income is forecast to increase in the optical fiber and cable business by several billion yen. On the other hand, there are also negative profit factors such as broadband products in Japan and the depreciation of the Brazilian Real (at the optical fiber and cable subsidiary).

Q : While the semiconductor industry remains relatively strong, why are revenues lower from tape for semiconductor process (Q1 actual results and full-year forecast)? Also, what is the reason for keeping the full-year income forecast in the Functional Products segment unchanged from last year?

A : The lower revenue from tape for semiconductor process is primarily due to inventory adjustments and changes to the purchasing policies among specific customers. The overall Functional Products segment was impacted by the deterioration in multiple functional plastic

products due to the construction project delays in Japan and overseas.

Q : The dividend for this year is still undetermined, but what are your thoughts?

A : Based on a policy of providing a stable dividend, our intent is to improve the financial position, invest in the future and provide returns to shareholders. At this time, net income for the year is still uncertain, and we are unable to grasp the overall feel. Given this, indicating a dividend level would be misleading, so we did not issue a divided forecast. However, we are thinking about setting a policy for quantitative returns when announcing the next Mid-term Management Plan.

Q : Is there any risk of an impairment loss being recorded as an extraordinary loss?

A : Concerning the extraordinary income and loss for this year, I feel we recorded the large items in Q1. However, if the results remain weak due to prolonged impacted of COVID-19, there may be a certain level of risk of an impairment loss. We routinely record an extraordinary loss of about 5 billion yen each year, and there is risk a loss on this level may occur.

Q : Optical cable productivity in North America improved in Q4 of FY2019, but it fell during Q1 due to the impact of COVID-19. What is the current situation?

A : Productivity steadily improved until around April, but following an increase in infections in the local area, as well as within employee households, employees were ordered to remain at home. This has led to lower operating rates.

Q : According to the press release issued on August 3, Furukawa Electric successfully installed a small diameter duct for 6,912 core optical cable. What level of impact will these orders have on the financial results?

A : We are now able to pass a large quantity of optical fiber with the small diameter ultra-high count 6,912 core cable through the narrow ducts used in data centers. There is still no major contribution to income at this time, but following the increased data traffic, we intend to gradually increase the ratio of (products such as this) rollable ribbon cable use.

Q : Are the orders for aluminum wire harnesses in new models increasing?

A : As of March 2019, aluminum wire harnesses were equipped in 39 models manufactured

by 6 companies, and this is expected to increase to 73 models manufactured by 8 companies in 2023. We will actively work to capture the demand for lighter weight in response to CASE, and there is no change to our medium to long-term outlook for growth in the aluminum harnesses we offer from the current 10-20% to around 40%.

Q : Against the actual operating income decline of 13.5 billion yen, you stated that the impact of COVID-19 was about 23.0 billion yen, so (excluding the impact of COVID-19) income really increased by 9.0 billion yen. On the other hand, the benefits of the emergency measures indicated on page 23 were 9.0 billion yen. What is the breakdown of the emergency measure benefits and the benefits derived from increased sales?

A : The 9.0 billion yen benefits from the emergency measures also include regular measures. However, this year, it will be difficult to realize benefits from increased sales and production while the markets are contracting. The benefits from increased production have been basically wiped out by the one-time expenses.

Q : Compared to the sales forecast ranges for each business announced on June 11, how has the current situation changed?

A : The reason for the steeper decline in revenue compared to the forecast in June is the Electronics Component Materials segment. Sales of the product line-up positioned in the upstream areas rapidly fell due to the impact of the market changes, and they have been slow to recover. In the Communications Solutions segment, there have been positive and negative factors depending on the business, but overall, demand can be said to be strong. In the Energy Infrastructure segment, the renewable energy business and data center products are trending basically as planned.

Q : In Energy Infrastructure, is my understanding correct that high voltage cable is strong while general use cable is facing a more difficult situation? Also, what is referred by the one-time expenses following the adoption of new materials?

A : Your understanding is correct in regards to cable demand. In general use cable, demand for construction and wholesale is weak. We will work to expand functional cable such as the aluminum CV cable. Concerning the one-time evaluation testing expenses following the adoption of new materials, as the demand for cable for renewable energy projects and burying existing power cable increases, encountering a material procurement risk at that time would have disastrous consequences. Although we are in the middle of the COVID-19 pandemic, several procurement risks have become apparent or may be realized. Given this,

the current actions have been taken. These expenses will occur this year only and will enable us to minimize the risk from next year. Also, this project assumes 4M (Man, Machine, Method, Material) are subject to change, and because testing expenses and third party evaluations will be necessary and take time to complete, we feel that it needs to be conducted now.

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