

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

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Content: FY2020 Q3 Financial Results

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

Q : How has optical fiber shipment growth been in each region?

A : On the full-year forecast basis, shipments will increase globally by 5%. By region, shipments will increase 15% in North America, decline by 30-40% in Asia and Europe and also decline in Central and South America. However, the FTTH solutions business is performing well in Central and South America, and revenue is expected to increase on a local currency basis.

Q: What were the factors in the weaker earnings in the Communications Solutions segment, and is improvement expected next year?

A : In Q3, industrial lasers and network products in Japan had a negative profit contribution of JPY 0.7 billion based on the low price method. Also, although the business in Central and South America itself is strong, depreciation of the Brazilian real dragged profits lower. We expect the negative profit contribution due to the low price method to recover following a full-scale recovery in industrial lasers heading into the second half of next year and the restart of expansion projects in the network products business in Japan. If the currencies in Central and South America stabilize, then next year, there will be a positive profit contribution.

Q: What is your outlook for each segment next year (excluding Communications Solutions)?

A : In the Energy Infrastructure segment, the construction and electric appliance market and railroad market are expected to remain weak, but we will work to expand sales of our aluminum CV cable. The structural reforms at the subsidiary in China were finished, and the company was profitable in FY2019. Orders have been strong, so a recovery is expected in FY2021. Also, the one-time evaluation expenses following the adoption of new materials incurred this year will not be incurred again next year.

In Automotive Products & Batteries, the batteries business has been strong recently, and deliveries of wire harnesses for global vehicle models will begin from this March. Given this, growth can be expected next year.

Electronics Component Materials is steadily recovering from the impact of COVID-19. Through increased productivity and expanded sales of high value added products, further profit improvements are expected.

In Functional Products, products for data centers are forecast to be firm. On the other hand, functional plastic products will be challenging due to continued weakness in civilian construction projects in Japan. However, we will work to expand sales of skill-free products that are easy to install.

Q : Specifically, how have profits changed in the Communications Solutions segment in each quarter?

A : From Q2 to Q3, the main factors in the change (Profits deteriorated by JPY 1.0 billion from JPY ▲0.4 billion in Q2 to JPY ▲1.4 billion in Q3) were impact of the low price method of industrial lasers and network products in Japan (JPY ▲0.7 billion), as well as deterioration in specialty fibers.

The main factors from Q3 to Q4 (Profits will improve by JPY +2.5 billion from JPY ▲1.4 billion in Q3 to JPY +1.1 billion in Q4) will be increased revenue from optical fiber and cable in North America.

Q : Is production of optical cable in North America steadily improving?

A : There were seasonal factors in November and December, but production is steadily improving. Compared to the lower operating levels in Q1 caused by COVID-19, productivity is steadily improving.

Q : Despite the improvement in the wire harness business, why did the automotive products subsidiary Furukawa Automotive Systems Inc. record a provision of allowance for doubtful accounts?

A : The recording of past recall expenses in previous years and this year was the main factor. In addition, the business has been negatively affected by COVID-19 in the first half. It concerns the loans from the parent company and will have no impact on the consolidated financial statement.

Q : What are the main factors behind the profit improvement on a quarterly basis in the Functional Products segment?

A : The main factors were improvements in copper foil for batteries and tape for

semiconductor process due to recovering demand. Also, memory disks and thermal management products for data centers continue to be strong.

Q : Concerning the factors in the downward revision to the Energy Infrastructure forecast, did any new negative factors appear in Q3? Currently, full-year operating income is forecast to be a loss of JPY 2.5 billion. What measures will be implemented with the aim of securing a profit next year?

A : At the subsidiary in China, construction projects were expected to contribute to profits in October – December, but due in part to lockdowns in Dalian and other cities, the construction projects did not progress as anticipated. Also, the recovery in the construction and electric appliance market in Japan has been slow. Although efforts were made to limit the impact, the improvement was insufficient to overcome these negative factors. Of the JPY 1.0 billion downward revision, JPY 0.2 billion is due to the impact of the construction projects in China, and the remainder is industrial cable in Japan.

Heading into next year, there will be four positive factors: ①Increased sales of aluminum cable, further improvement to the cost of manufacturing and compressed fixed expenses in the industrial cable business, ②Return to profits at the subsidiary in China (about JPY +1.0 billion), ③New material evaluation expenses will no longer be incurred (expect expenses of JPY 0.5 – 1.0 billion this year), and ④Higher net sales and improved productivity in renewable energy and underground cables in Japan.

Q : Automotive Products & Batteries achieved a large profit of JPY 3.0 billion in Q3, but based on the seasonal factors in the battery business, the outlook for Q4 seems slightly weak. Have certain risks been incorporated into the forecast?

A : Due to differences in the reporting timing at overseas subsidiaries, net sales will change by JPY 10 billion in Q4 compared to Q3. Actual net sales were over JPY 70 billion in Q3 and are forecast to be over JPY 80 billion in Q4, and the profit margin based on these figures is expected to improve in Q4. Also, the risk of increased transportation expenses due to higher container shipping costs is expected to be on the level of several hundred million yen, but given the strong demand environment, it should be possible to absorb these expenses.

Q : What are the details of the profits by region in the Communications Solutions segment?

A : Compared to last year, profit has greatly improved in North America and is more than JPY 2.0 billion higher year on year through Q3. On the other hand, profits in industrial lasers and network products in Japan have declined by almost JPY 2.0 billion due to the impact of

COVID-19. Also, lower exports from Japan to Asia dragged profits down by about JPY 1.0 billion. In South America, profits have declined by almost JPY 1.0 billion due to the impact of currency fluctuations. Excluding the impact of currency fluctuations, earnings are actually higher.

Q: Your competitors are greatly expanding data center sales, but what is the reason for the differences in the trends? Also, will you start manufacturing ultra-high count multi-core cable in North America? What is your strategy?

A: Traditionally, our North America location is strong among Tier 2 & 3 customers, but it is also conducting sales for data centers. Based on the strategy of growing multi-core cable, we are exporting 6,912 core ultra-high count multi-core cable manufactured in Japan, but based on the demand growth in the future, we may look into manufacturing in North America.

Q: The emergency management responses are expected to have an effect of about JPY 10.5 billion this year, including reducing the cost of manufacturing and limiting business expenses, but what will the true effect on reducing the cost of manufacturing be next year?

A: About 30% of the overall amount, mainly business activity expenses, resulted from depressed activities due to COVID-19. These expenses will likely be incurred again once COVID-19 comes to an end. Also, as explained in the past, the benefits of the Transformation Division's activities are being realized this year as anticipated, and next year, it should be possible to reap the benefits of the measures aimed at expanding sales.

Q: Are the renewable energy projects you are focusing your efforts on in the Energy Infrastructure business being realized as firm orders?

A: We are definitely accumulating orders in relation to renewable energy and array cables. Also, we are following up on the level of achievement based on the marginal profit, so we should be able to expand not just net sales but profit as well.

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