

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

Date: May 12, 2021 (Wednesday) 17:00 – 18:00

Content: FY2020 Financial Results

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

**Q:** Concerning the FY2020 financial results, what factors were behind the improvement to non-operating income? Also, why did Automotive Products seem slightly weak?

A: The improvement at the equity method affiliate UACJ Corporation had a large impact. Also, although some of the other equity method affiliates are facing very challenging situations, the fact that anticipated risk such as impairment losses on non-current assets did not occur and the impact of foreign exchange were other factors. The depreciation of the Japanese yen in Q4 will likely be temporary, but it had a positive impact.

Concerning Automotive Products, net sales did not increase much. As I mentioned during the presentation of the Q3 results, the impact of discrepancies in the fiscal year timing at overseas subsidiaries continued to exist in FY2020, and recent sales have been recorded as FY2021 net sales. In reality, net sales and profit were in line with expectations.

**Q:** Concerning optical fiber shipment volumes by region, what were the results in FY2020 and your outlook for FY2021? Particularly, in America, I believe the market is strong given the RDOF, investments by telecommunications carriers and data center demand, but despite these positive factors, profit growth appears to be small. Is the market environment in the other regions weak?

A: Compared to Q3, optical fiber shipment volumes increased by more than 20% globally in Q4. In particular, they grew by over 20% in North America. In addition, volumes grew by over 40% in Central and South America, over 20% in Europe and slightly less than 20% in Asia-Pacific. In China, volumes declined slightly, and they increased slightly in Japan. However, these are low volume regions, so there was no major impact. For the year, volumes increased 5% globally. In North America, volumes increased 15%. In Central and South America, although volumes declined by more than 20%, the solutions business is growing, so it is not a major problem. Volumes declined 30% in Europe and 40% in Asia-Pacific. Concerning the forecast for FY2021, optical fiber volumes are expected to increase 15% globally. By region, they are expected to increase by over 20% in North America, decline by over 20% in Central and South America, increase 10% in Europe and increase slightly in Asia-Pacific, China and

Japan. In terms of the component ratio of each region, North America accounts for 70% of total volume, while Central and South America account for 5%, Europe accounts for slightly less than 15%, and Asia-Pacific and Japan account for about 5% each.

**Q:** Concerning profits in Communication Solutions, how does the breakdown by regions compare to last year?

**A:** In FY2020, lost opportunities in the optical fiber and cable business in North America exceeded the initial forecast by about JPY 3.0 billion, but improvements were made compared to the previous year and the lost ground will be firmly regained in FY2021. In network products in Japan and industrial lasers, profits deteriorated by several billion yen. In FY2021, profits are forecast to increase by about JPY 4.5 billion in total; JPY 3.0 billion in North America primarily in the optical fiber and cable business, JPY 2.0 billion in network products in Japan and industrial lasers, several hundred million yen in optical components, JPY 0.5 billion in Central and South America (solution business).

**Q:** When do you expect to capture demand from the economic stimulus (RDOF= Rural Digital Opportunity Fund) implemented by the United States government?

**A:** Some of the bidding is already over, and those orders are being received. Some effects were even visible in Q4. On a larger scale, demand is expected to increase this year, particularly heading into the latter half.

**Q:** Has optical cable productivity stabilized in North America?

**A:** In FY2020, although there were challenges, such as lower operating levels from May through July due to decreased employee attendance caused by COVID-19, as more of the population gets vaccinated in the United States, the risk of infection has diminished. At the same time, employee training has advanced, and the situation is steadily improving. Activities to improve productivity are also being conducted, and good improvements are being made.

**Q:** In Communications Solutions, what was behind the large improvement in profit and loss from Q3 to Q4 in FY2020?

**A:** In Q3, optical fiber and cable slacked in North America due to seasonal factors, and there were also slumps in specialty fiber and amplifier products. These areas recovered through Q4, and optical cable volumes also grew in North America, resulting in a positive impact of about JPY 1.0 billion. Also, strong volumes of optical devices are being realized, and this improved

profits by several hundred million yen. In addition, in the broadband business, installation is a major part of this business, and significant sales and profit occurred in March, resulting in an improvement of over JPY 1.0 billion.

Q: The FY2021 operating income forecast for Communications Solutions appears to be very low compared to the JPY 1.4 billion result in FY2020 Q4 on an annualized basis. Is the high depreciation expenses the reason for this low profit level despite the volume growth?

A: Next year, research expenses and depreciation expenses are expected to increase by a combined JPY 1.5 billion. Also, in the broadband business, profits will likely be concentrated in Q4 again next year, so it is impossible create the annual forecast simply by quadrupling the Q4 result from this year.

Q: What is your outlook for the falling optical fiber prices?

A: In North America, prices fell by around 3-7% in FY2020 and are expected to fall by around 5% in FY2021.

On the other hand, prices dropped by 20-30% in Asia, including India. In Europe, prices are starting to stabilize, and after dropping by 15-20% in FY2020, they are expected to fall only slightly in FY2021.

Q: What are the factors behind the profit growth (JPY +2.9 billion) in Energy Infrastructure in FY2021?

A: ①Evaluation expenses following the adoption of new materials will not be incurred, ②Improvement at the subsidiary in China and ③Improvement in Industrial Cable & Power Cable Accessories will have a combined impact of about JPY +2.5 billion (each will contribute equally). Also, although depreciation expenses will increase, revenue growth from capturing demand for underground cable projects in Japan and overseas and in relation to renewable energy will have a positive contribution.

Q: I understand that benefits from the emergency management responses and Transformation Division activities have been realized in FY2020, but to what extent do you expect the cost of manufacturing reductions will contribute to improving operating income in FY2021?

A: The scope of the group transformation activities will be expanded to other businesses in FY2021. Also, higher profit is expected through increased sales following the recovery from

COVID-19 crisis. The profit and loss breakeven point is expected to improve by about 6%, and based on net sales on same level as FY2020, about 75% of the real change shown on p. 22 (JPY +24.8 billion) will come from increased net sales. On the other hand, depreciation and amortization expenses are expected to increase by about JPY 2.0 billion as a result of the head office relocation and investments in internal IT infrastructure. Overall, fixed costs are expected to increase by JPY 8.0 – 10.0 billion, and this increase will be absorbed by reductions to the cost of manufacturing and increased net sales. From the Q1 results, I hope to be able to present an analysis of the details.

Q: What is the status of orders for power cable for renewable energy? Are there any changes from your original scenario?

A: The business progressing basically according to the scenario. As real actions begin to be taken towards becoming carbon neutral, the market environment is improving, and the probability of market growth seems even to be increasing. We should be able to steadily increase net sales within this environment.

Q: I understand that fixed expenses will further increase despite profit not yet returning to peak levels, but I would like to hear more about the effects of the investments.

A: My explanation was partially based on the view that during major drops in net sales, such as what occurred during the COVID-19 pandemic, total personnel expenses including direct labor expenses, which increase following increased sales (and are traditionally variable expenses), should be viewed as fixed expenses, and as net sales recover, these fixed expenses will also rise to a certain extent. However, as you pointed out, I will also explain better about the effects of the investments going forward.

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