

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

Date: May 12, 2022 (Thursday) 17:00–18:00

Contents: FY2021 Financial Results

Speakers: **Akihiro Fukunaga**, Director, Corporate Senior Vice President, and General Manager of the Finance & Accounting Division

**Q:** Concerning the impact on operating income, is it correct that of the JPY 6.0 billion in one-time expenses incurred in FY2021, JPY 5.2 billion will be recovered in FY2022?

**A:** In the forecast announced at the end of FY2021 Q3, we anticipated a negative impact of JPY 6.0 billion (one-time expenses of JPY 12.0 billion and recouping slightly less than JPY 6.0 billion), but due to the impact of lower customer production volumes and other factors, the actual impact was about JPY 8.0 billion (one-time expenses of JPY 13.0 billion and recouping slightly more than JPY 5.0 billion), slightly less than JPY 2.0 billion higher than expected. In FY2022, we will work to recoup this difference.

**Q:** Your optical cable factory in Russia is the production site for exports to Europe and America. Has the situation in Russia and Ukraine had an impact?

**A:** Volumes within Russia are limited, and considering the transportation expenses for shipments to Europe and America, the negative impact on profits will be limited.

**Q:** Growth in optical fiber and cable sales feels weak given the strong market conditions. Is this due to the delay in passing on the increased costs to customers because of the large number of outstanding orders?

**A:** It is true that it is difficult to reflect higher costs in the sales price of outstanding orders. As the number of outstanding orders declines, the effects of incorporating the higher costs in the sales price will increase going forward. In addition to higher productivity, the number of new orders for the value-added rollable ribbon cable is increasing, and the effects will become visible going forward.

**Q:** Have the COVID-19 lockdowns in China had an impact on the wire harness business? Also, what is your outlook for the growth of wire harness sales in FY2022?

**A:** We expect full-year growth of lightly under 15%. Concerning the impact of the lockdown (in Shanghai), we have adopted a conservative market forecast based on the assumption it will continue until around June. We have set our market forecast about 5% lower than general expectations, and it also includes the outlook for deteriorating market conditions from March.

**Q: What is the status of optical cable productivity improvements in North America?**

A: The turnover rate has better improved than in the past, but particularly in the region where our cable production site is located, the unemployment rate is nearly 0%, making it a challenging situation on an ongoing basis. We are focusing on securing personnel through improved compensation and enhanced training.

**Q: Full-year operating income in Communications Solutions businesses was nearly in line with the forecast announced at the end of Q3. Concerning the profit levels in FY2022, do you feel these profits are low?**

**What prospect do you have about operating levels at the optical cable plant in North America?**

A: Concerning operations at the optical cable plant, production and shipments in April were relatively unchanged from March, and the situation has become much steadier. As of today, demand in North America has not fallen much, but with consideration for the economic risks going forward, we have set a conservative forecast.

**Q: Your optical fiber and cable business in North America is dollar-based, so will the recent weakness in the yen provide a boost to earnings?**

A: That is correct. However, profits are still not large, so going forward we will work to increase profits in order to benefit from the (impact of weakness in the yen) situation.

**Q: In the Automotive Products business, I understand that the differences in fiscal year timing at overseas subsidiaries has an impact on the financial results, but are there any major risks in the first half?**

A: The majority of overseas production is for use in Japan, so the lower vehicle production in March is already having an impact (in the Q1 results). Also, for products destined for China, fixed expenses have increased due to the lockdowns. In addition, our customers in Japan (automobile manufacturers) have recently halted production, and this risk has also been incorporated in the forecast. The first half is expected to be challenging, followed by improvement heading into the second half.

**Q: In Communications Solutions businesses, what factors were behind the improved operating income in Q4? Based on these levels, shouldn't profits be higher in FY2022?**

A: In relation to broadband products in Japan, projects are concentrated in Q4. In addition, the gradual recovery from the impact of COVID-19 in the industrial lasers business pushed Q4 profits higher. Also, we have been conservative in our expectations for the benefits from incorporating the higher costs in the sales price in FY2022.

**Q:** Concerning the waterfall chart on Slide 6, it appears that the soaring raw material and transportation expenses have not been sufficiently incorporated in the sales price, but what is the status of progress of incorporating these costs in the sales price in each segment?

**A:** Our forecast is conservative in regards to the expectations for incorporating the soaring raw material and transportation expenses in the sales price. Basically, higher costs will be reflected in the sales price, and although there is a time lag, prices will catch up with the costs. Also, when the emergency transportation expenses and other soaring costs occurred in the wire harness business in the past, we requested the customer to share these expenses after they were incurred. However, going forward, we will work with the customer to decide rules for sharing these costs before they are incurred.

**Q:** What was behind the large increase in other fixed expenses?

**A:** Other fixed expenses include indirect manufacturing expenses. The reason is that personnel for production control, quality control, technology, etc. are being maintained at a proper level for the increased net sales. Typically, these expenses are handled as part of the cost of manufacturing, but we manage them separately as fixed costs.

Also, concerning selling and administrative expenses, efforts were made to limit business expenses during the COVID-19 pandemic, but as society shifts to with-COVID and business activities return to normal, necessary business expenses are gradually returning. However, we will not simply restore these expenses to previous levels, and continued efforts will be made to limit business expenses. These expenses are also included in other fixed expenses. For these higher expenses, we will of course work to increase sales and reduce the cost of manufacturing.

**Q:** Looking at the waterfall chart on Slide 30, you are expecting greatly reduced cost of manufacturing and transportation expenses in FY2022, but when do you expect these effects to appear during the year?

**A:** First, I would like to state that as a result of preparing to conduct a more detailed profit analysis than in the past, we are now able to conduct a more thorough analysis and see more clearly.

Concerning the cost of manufacturing, particularly in the wire harness business, the lower productivity resulting from the need to make personnel adjust in response to changes in customer production and the increased costs for securing personnel (in preparation for recovering orders) had a major impact. Going forward, by strengthening the response in line with the changes in production, we will achieve gradual improvement every quarter.

Concerning transportation expenses, in order to reduce the risk of supply chain disruptions, we will focus on securing a stable logistics network. Specifically, we will change the service contracts from spot contracts concluded every quarter to annual service contracts (in the past

it was normally possible to limit expenses by receiving spot rates, but during the logistics disruptions caused by COVID-19, it was not possible to secure the required space at the required time). The transportation expenses themselves will be relatively higher, but it will be possible to limit the occurrence of unexpected one-time expenses arising as a result of being unable to secure a logistics network when needed.

**Q: What progress has been made in acquiring orders for aluminum wire harnesses and increasing adoption in new models?**

A: At the end of FY2021, our wire harnesses have been adopted in 56 vehicle models of 6 manufacturers, and in 2025, we expect our harnesses to be used in 100 models of 8 manufacturers. Already, 90% of the orders for 2025 have been finalized. We are receiving new orders when the manufacturer decides to shift from copper to aluminum.

**Q: What is the status of orders and market situation in the power cable business?**

A: We expect to steadily acquire orders. However, because the projects are large, most of the delivery schedules stretch into the future. It is a business we intend to strengthen based on a medium to long-term timeframe and from the perspective of contributing to the shift to carbon neutral. We plan to announce our new medium-term management plan on the May 26<sup>th</sup>, and I will discuss this business more at that time.

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