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

Date: May 26, 2021 (Wednesday) 17:00 – 18:10

Contents: General Overview of 2020 Medium-term Management Plan and FY2021 Management Policy

Speakers:

Keiichi Kobayashi, President

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

Satoshi Miyamoto, Director, Corporate Senior Vice President, and General Manager of the Business Basis Transformation Division

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

Q: You explained that for the KPI going forward, greater focus will be placed on capital efficiency, but will you also give attention to increasing the profit margins? Also, do you feel you have realized sufficient returns on the investments made to date?

A: Over the past several years, we have shifted from a product-out to a market-in approach, and the results are becoming visible in multiple ways, including budding new businesses and increased sales of value added products. In FY2020, the impact of COVID-19 pushed profit levels down, but we expect the situation to improve in FY2021. In addition, the effects of the measures for sales and manufacturing are also starting to appear, including our ability to generate cash flow of more than JPY 20 billion during the 3 years from FY2018 to FY2020, exceeding our target of JPY 10 – 15 billion.

Concerning the optical fiber and cable business in North America, sufficient returns have not been realized from the investments, but Energy Infrastructure achieved profitability in FY2020 when the one-time factors including evaluation costs following the adoption of new materials are excluded.

Concerning the optical fiber and cable business, in partnership with the business division, the issues have been addressed as part of the Transformation Division activities. In FY2020, unfortunately, we were unable to fully benefit from the market growth in North America, and although shipment volumes increased, they were below the target levels. Due in part to COVID-19, we could not sufficiently operate the facilities for which investments have already been made, but on the other hand, this means we currently have much additional room to increase future profits. We will strengthen support from Japan and work to strongly increase profits.

Q: Concerning the optical fiber and cable business, what are the fundamental factors and issues behind the technological differences between your plants in Japan and the United States?

A: Looking at FTTH coverage, Japan has coverage of 98% while it is slightly less than 40% in the United States. Within this trend, the strategy for our well-differentiated product multi-core cable has been to focus on manufacturing and sales primarily in Japan. (In recent years, within the strategy of expanding multi-core cable to North America), in 2019, we dispatched engineers from Japan to our US site, and in 2020, we accelerated these actions, including the dispatch of division management level personnel. At the same time, for our ultra-high count multi-core products such as the 6912-fiber rollable cable, we are not considering manufacturing in the United States, and in this way, we will separately allocate product manufacturing between the two countries.
The scale of the cable plant in North America is larger than our Mie Works in Japan, and we still need to enhance the personnel. Also, the simultaneous occurrence of multiple factors, such as the inability to coordinate the installation of new equipment as planned due to COVID-19 is another factor.

Q: Does this mean you are placing great effort into improving the technological capability?

A: That is correct. We believe it is necessary to present solid results and are working hard to achieve improvement.

Q: Concerning the new indicator for capital efficiency, will there be any differences in how it is applied to each business (such as incorporating an ESG perspective rather than just judging based solely on the indicator) and the evaluation timeframe?

A: Although there will be differences depending on the business, we will evaluate using a set timeframe. Also, the desired returns differ for each business. In addition to FVA, we will organize our approach this year, including the long-term indicators directed toward 2030, and I would like to cover this topic again when we announce the 2025 Medium-term Management Plan next year.

Q: The explanation of ESG on pg. 14 includes a statement about reducing the cost of capital. What hurdles do you plan to set based on the differences in volatility and cost of capital in each business?

A: We are considering this point right now, and I would like to discuss it further when we announce the medium-term management plan next year. The concept of financial discipline is included as part of governance, and I believe it would be incorrect to simply focus on executing E and S.

Q: Today, you talked about the creation of a number of new businesses, but concerning the investment scale in the next medium-term management plan, how do you plan to balance the investments with financial discipline?

A: To date, we have made investments based on the status of orders in the automotive products and other businesses. Going forward, we will place additional focus on increasing productivity, and we are not considering investments on the same scale as those made in the past. In the power cable business, we were burdened by operating ratios after making investments to pursue increased scale, and we will not do the same thing again. Along with amendments to existing laws, the business environment is changing, including growth of the renewable energy market, and we intend to make the necessary investments.

Q: I feel the focus on capital efficiency is correct, but because the actual figures such as ROIC for each division are not disclosed, it is impossible for us to determine if management is being conducted correctly. Do you plan to disclose these figures in the future?

A: Instead of disclosing the overall figures, we will consider how to present this information in some format.

Q: Today's explanation felt like you were talking most about ideals. The initiatives themselves are good, but there is a need to increase the profit margins. What do you feel is currently your largest problem? In particular, in terms of profit improvement, Communications Solutions is a key point, but I feel the FY2021 operating income forecast of JPY 4.5 billion is insufficient.

A: The most important factor for us as a group is to move forward in step with our employees. While working to foster our human resources, we will become a stronger company and generate profit. Concerning the profit levels (last year), COVID-19 may have been a factor, but we will not use it as an excuse.
We are also planning business briefings for each division in June, and we will try to prepare a more detailed explanation of Communications Solutions then.

Q: I understand you have set forth criteria for sorting out the businesses when developing new businesses, but I feel there is still a need to address the existing businesses. Do you plan to narrow down the businesses any further?

A : Concerning the development of new businesses, we are mainly selecting those businesses that will be necessary for achieving carbon neutral. This already narrows down the businesses quite far. Also, many of the businesses will be developed through co-creation, and we will not irrationally widen the scope. Concerning the existing businesses, as well, we have narrowed the power cable business to Asia. Our main issue is Communications Solutions, and we are placing our greatest effort there.

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