

## Q&A Summary of the Meeting for Institutional Investors and Analysts of

### Furukawa Electric Co., Ltd.

Date: May 26, 2022 (Thursday) 17:00–18:10

Contents: Medium-term Management Plan (2025 Mid-term Plan)

Speakers: **Keiichi Kobayashi**, President

Observers: **Satoshi Miyamoto**, Director, Corporate Executive Vice President and General Manager of the Strategy Division; and **Akihiro Fukunaga**, Director, Corporate Senior Vice President and General Manager of the Finance & Accounting Division

Q: In the 2025 Medium-term Management Plan announced today (for the 4 years from FY2022 through FY2025), you are planning total capital expenditures of JPY 190.0 billion an average annual expenditures of around JPY 47.0 billion. This is nearly unchanged from the levels in the previous medium-term plan (2020 Medium-term Management Plan). Do you feel there is a need to invest in profitable businesses based on better selection and concentration of the investments? Also, have you reflected on the previous plan?

A: As explained on page 30, we will select and concentrate the businesses as we steadily move forward. During the 2020 Medium-term Management Plan, we formulated a vision for the group in 2030 and created a roadmap for the development and investment plan directed at achieving that vision. Concerning the planned level of capital expenditures, it was decided while considering the FY2025 management targets and from the perspective of cash allocation. Also, we have reached the stage where we can make management decisions concerning business downsizing and withdrawal.

The main point requiring reflection in the previous plan is the lack of management for the overseas locations. As the external environment continues to rapidly change, issues became obvious while working on the productivity at the optical cable site in North America and transportation from overseas manufacturing sites in Automotive Products. We have discussed how to think about executive management at the overseas sites and how to strengthen management (for the overseas sites), and actions have been taken. As a milestone for achieving Vision 2030, we will generate strong results under the 2025 Medium-term Management Plan.

Q: Specifically, how do you intend to generate those results? Also, how certain are you?

A: For Automotive Products businesses in particular, we have created a matrix and analyzed the issues in relation to buying, making, selling, holding (inventory), shipping (transportation method) and management. The details requiring action have been

organized, and deadlines have been set. I hope to provide a more detailed explanation during the business briefing in June.

Also, concerning Communications Solutions businesses, the management structure in North America has been restructured. In March, optical cable production was in line with our manufacturing capacity, and it has remained steady in April and May. With the low unemployment rate and rising wages, North America is currently a challenging business environment, but we will increase production volumes directed at taking the next step.

Q: You are forecasting a large increase in operating income in Functional Products businesses, but which businesses are expected to grow? The forecast does not appear to match well with your vision to focus on the three domains of information, energy and mobility, but what are your thoughts?

A: Tape for semiconductor process, in which we have recently decided to make a capital investment of JPY 7.0 billion, is also an important business for the combined domain (information, energy, mobility). Including Functional Products businesses as a whole, we will grow profits while improving the product mix.

Within Functional Products businesses, copper foil, memory disks, thermal management solutions & products and tape for semiconductor process are businesses that tend to remain behind the scenes but have a strong presence. They are related to all parts of the combined domain, and profit growth can be expected.

Q: Concerning the profit forecast by segment on page 42, you plan to achieve record high operating income of JPY 16.5 billion in Automotive Products & Batteries businesses in FY2025, but can you provide an image of which products will contribute to the higher profits?

A: As explained on page 17, increasing sales by leveraging our strengths in aluminum wire harnesses will have a large contribution. In addition, we are expanding our factories based on the orders received, and this will also contribute to profits. Also, we expect SRC (steering roll connector) sales to increase mainly in Asia. Further details will be provided during the business briefing in June.

Q: You plan to double (from current levels) operating income in Communications Solutions businesses in FY2025, but which business and products will have the largest contribution to higher profits?

A: We will increase sales by leveraging our strengths in the high value added rollable ribbon cable. We also have strengths in long-length cable for reducing the number of connections and smaller cable diameters, and the number of inquiries continues to increase. Areas outside of Japan have still not fully converted to FTTH, so there should be opportunities for

growth. Also, we will expand our photonics products, such as ITLA that will contribute to realizing the IOWN concept.

Q: Communications Solutions businesses operating income in FY2025 (JPY 11.5 billion) still feels a little weak. Have you set a conservative forecast based on the recent risks and other factors?

A: In light of the risks for increasing productivity in North America due to the low unemployment rate and rising wages and the R&D expenses and CAPEX in next generation photonics businesses, it is a conservative forecast. Also, due in part to the higher resin prices and risks related to helium procurement, it is currently difficult to set optimistic targets, but we will commit to the stated figures as the minimum target.

Q: In Functional Products businesses, is operating income expected to grow rapidly (in the latter half of the medium-term plan) once the benefits from increased production of tape for semiconductor process are realized in FY2025, or including the other businesses, will income increase gradually?

A: The products other than tape for semiconductor process are also expected to contribute to profits through increased sales to major customers. We will grow the memory disk business (aluminum blanks for HDD) by responding to the growing data center market and customer requirements for thinner disks. In the copper foil business, along with the main raw material copper, customers have reacted positively to our efforts to become carbon neutral in energy use, and by responding to the performance requirements for high frequency printed circuit boards, the business will steadily grow. In thermal management solution & products, we will respond to market growth from our site in China and newly established site in the Philippines.

Q: Of the five years covered by the 2020 Medium-term Management Plan, the third year was milestone year set as an interim step. The current plan covers a slightly longer four years until FY2025. Have you included any initiatives for increasing the certainty of achieving the plan? Also, directed at increasing ROIC, it will be necessary to both grow the businesses and reduce costs. Although it was not covered much today, what are your thoughts about cost reductions?

A: We have established a regular meeting every week during which our executive officers consider cost reductions. It is possible to reduce the cost of manufacturing by around JPY 10.0 billion a year. On the other hand, due to the current procurement risks, this benefit should become visible from FY2023.

Also, as explained on page 31, we have spent the past year considering the investment allocation based on the positioning of the business and decided the investments with

reference to the vision for 2030 and numerical management targets. The investment levels were decided while maintaining thorough awareness of cash allocation. At the same time, there are businesses that have increased maintenance and renewal investments planned in FY2022 after being postponed in FY2020-FY2021.

Q: In the cash allocation shown in page 32, cash-in and cash-out over the four years in the plan are balanced, and there is little change in interest-bearing debt. Because planned capital expenditures will continue to exceed amortization and depreciation, I believe fixed expenses will increase. What are your thoughts about the overall cash flow?

A: The figures you have pointed out show balanced cash-in and cash-out, and in terms of the DE ratio, there is little improvement. However, in the new medium-term management plan, we have increased awareness of the ROIC spread (sufficient return on the capital costs) and have also introduced FVA (Furukawa Electric's version of EVA) as an internal management indicator. Based on these actions, we have secured a solid balance between investment returns and capital costs. Also, operating cash flow incorporates certain risks based on past performance, and although further discussions will be held on how this cash flow will be used, we should be able to secure JPY 50.0 billion for strategic investments. Including from this perspective, I believe there is room for an uptick in our cash flow.

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