

Q&A Summary of the IR Business Briefing of Furukawa Electric Co., Ltd.

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Contents: Energy Infrastructure business

Speaker:

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Q: What is your competitive position in the area of submarine cable, as well as the recent status of orders and operations?

A: We are planning to make capital investments of JPY 15 billion through 2025, but presently, production capacity is about 60% of the plan after allocating half of the total investment amount. Due in part to the receipt of the Sumatera-Bangka submarine cable order, we are operating at full capacity. The key points are cable manufacturing capability and the ability to manufacture long lengths.

Q: There are multiple projects in Asia centered on offshore wind power, but is the supply of high voltage cable sufficient? What are your thoughts about the Asia renewable energy market?

A: There are a number of projects, but only several are actually moving forward. We will not pursue projects that are based solely on price and are instead focusing our efforts on the high-quality projects in which we are recognized to have an advantage. There are also a number of projects in Japan, but we expect only 1-2 projects in 1 sea area to actually reach operational phase. We have received many inquiries from a number of companies and are responding to them as they come in.

Q: Are you targeting Japan and Asia? Is it safe to assume there is no risk that the investments will result in oversupply?

A : Initially we will concentrate on responding to projects in Japan, where there is a limited number of companies that can supply power cable. Insufficient supply in Japan will open the door to foreign competitors, and this is something we want to prevent. We are making capital investments based on the level of certainty that the project will move forward.

Q : What is the reason for the weak profits in the past few years, and what measures are being taken to improve profits going forward? I get the impression that unique expenses have been incurred, but what is behind these expenses?

A : We are advancing the business aimed at achieving an operating income of JPY 5.0 billion in FY2025. Initially, we had forecast a single digit profit this year, and excluding the extraordinary factors such as COVID-19, we would have achieved such profits. In FY2018, we recorded provisions for construction losses following the orders accepted for the purpose of securing experience that will lead to larger projects in the future. In addition, this year we recorded evaluation expenses for new materials in preparation for the future. However, these expenses will not be incurred from next year. Directed at FY2025, we are taking a variety of actions aimed at securing a profit.

Q : In regards to the evaluation of new materials, is it being done in order to diversify the supply sources?

A : That is correct. In preparation for risks to the BCP due to natural disasters, as well as the fact that the volumes used will increase as the business expands in the future, we are establishing multiple companies from which we can purchase materials.

Q : Given that the weak construction wholesale market in Japan will likely be prolonged, what actions will you take to secure profits in the industrial cable & power cable accessories business?

A : The market has recovered to about 70% of where it was prior to COVID-19, and even if the recovery continues going forward, it will only recover to about 80%. The gradual decline that was expected in the future will occur earlier than anticipated. In April of this year, we formed a joint venture sales company with SWCC Showa Holdings Co., Ltd., but the market share remains at the same level as prior to the merger. In order to increase market share while avoiding a price war, we will work to expand sales of the aluminum Rakuraku cable and components.

Q : What technological advantages do you have in power cable for renewable energy?

A : The key point is higher voltages and longer lengths following the increase in power generation capacity. Also, the offshore wind power that will be established on a large scale in Japan will shift from fixed foundations to floating foundations, and it will be necessary to increase the voltage of the dynamic cable and riser cable. It will be important to have a response that includes cable installation know-how for the complex geological features on the seafloor around Japan. In particular, the dynamic cable used for offshore wind power is affected by complex currents, so an advanced technological response in combination with long-length cable is needed.

Q : What is the current status and positioning of the Chinese subsidiary within the overall power cable business?

A : Profitability was achieved last year for the first time in 9 years, and this year also started with strong expectations given that remaining orders accounted for 70% of planned sales. However, COVID-19 had a major impact, including the suspension of operations and delays to customer projects. In addition, the typhoons that hit mainland China later in the year caused a shortage of construction labor, and this resulted in the recovery being slightly delayed, including sales for planned projects being pushed back until the end of this year or next year.

The Chinese subsidiary is manufacturing underground cable, and customer approval has been requested for permission to support the insulation process carried out at the plant in Japan (Chiba). Also, as a result of the high quality and technological capability, product orders were received in areas outside of China last year, including Vietnam. Along with firmly responding to the orders in China, the company is responding to underground cable demand in Asia. On the other hand, in the second half of last year, orders were strong in China, and excluding the impact of COVID-19, the plant continues to operate at full capacity. Given this, arranging the production system is an issue.

Q : From the perspective of ESG, how will the renewable energy business be weighted going forward?

A : In order to acquire a 50% share in Japan, it will be necessary to secure 50% of cable manufacturing capacity for that use. Also, we intend to contribute to the SDGs through the expansion of the water pipe business.

Q : Is it possible to raise the sales price a little more in order to secure profits?

A : Efforts are being made in partnership with the Transformation Division to transform the order receipt process itself, and prices are gradually being returned. This will continue going forward.

Q : Concerning the aluminum Rakuraku cable, why is the shift from copper not steadily progressing? Are there any measures that can be conducted to promote a shift?

A : It is a product that has great merits for contractors, and we have received positive evaluations from the construction sites. On the other hand, the cable itself is slightly thicker than copper cable, and this has an impact on the other components. As a result, it is necessary to strengthen our proposals from the design phase. We need to approach the owner, architect, contractor and others, and we are strengthening our response both in terms of sales and technology.

Q : Do you expect to have competitive advantages in terms of price as the power cable technology evolves going forward?

A : Presently, fixed foundations are the mainstream turbine installation method, and inter-array cable is generally used. However, as floating foundations become main stream in the future, high voltage export cable will be needed. We are working hard to prepare for this shift, and I believe we can leverage our superiority.

Q : It continues to be difficult to secure a profit in the power cable business, but do you expect that going forward it will change into an industry and business in which it is easier to secure profits?

A : Because the number of cable manufacturers is limited compared to the large number of business companies (general construction companies), I feel the situation is shifting towards us being able to take the lead during the business talks. We will work to fully reflect the added value, such as the technical features, in the price and break free from the old relationships. The method used to create price estimates has been revised. Presently, the Division Manager has been appointed the top person in charge, and while assessing and deciding every price estimate, advances are being made in securing profits from all projects.

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