

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

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Content: Automotive Products business

Speaker:

**Shigenobu Abe**, Corporate Senior Vice President and General Manager of the Automotive Products Division

Observers:

**Tomoyuki Yamai**, Corporate Vice President and Deputy General Manager of the Automotive Products Division

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**Q:** There are some who feel that the wire harness market will shrink going forward, but what is your outlook?

**A :** Rather than disappearing, the harness market is likely to gradually evolve from harnesses as hardware to a combination of the harness and software.

**Q:** I understand that in the Automotive Products Division, depreciation expenses on the investments precede the profits. Are sales and profits expected to increase in the future?

**A :** In the Automotive Products Division, it normally takes 2 years from receiving an order to the delivery of product. Given this, the development and capital investments occur first. Presently, depreciation expenses are increasing as we receive more orders, and we expect to start reaping the profits from FY2021.

**Q:** You are increasing the investments and capacity in Vietnam and elsewhere, but is the production capacity of the material used for the aluminum wires sufficient?

**A :** The material used for the wire harness is being supplied from Indonesia. It is then drawn and formed into electrical wires in Vietnam. Presently, we are working to expand the aluminum wire manufacturing plant in Vietnam, and it will be possible to respond to demand for the time being within the range of the current investments. Also, we are considering responding to future increases in demand through piecemeal expansion to the facilities. The production capacity of the base material from Indonesia will be sufficient to satisfy demand for the time being.

**Q : I understand that wire harnesses make up a large proportion of sales. What are your thoughts about the future sales growth of SRC, BSS and other components?**

**A :** SRC and BSS account for about 20% of total sales, and including the other components (radar, high pressure components, etc. account for about 10% in total), these products account for 30-40% of sales. Compared to competitors, we have advantages in terms of the ratio of component materials and parts manufactured in-house and the supply network with multiple overseas locations. BSS should start to see strong growth going forward, but for radar and high pressure components, we are promoting sales activities based on an outlook that the market will start to change significantly in 2024-2025. We expect the sales composition to gradually start to change from around that time. Although the European competitors have gotten a head start, our ability to flexibly respond to customer requirements and the supply network of several locations around the world are strengths.

**Q : The first half results were greatly affected by the major drop in demand, but what are the particularly large operational issues you have faced?**

**A:** We faced 3 challenging issues as a result of supplying wire harness from the Philippines to regions such as Japan that were not greatly affected by lockdowns. In declining order of impact, these challenges were: ①Alternative production space, ②Personnel, and ③Facilities. Going forward, from a BCP perspective, we will secure space (strategic space) for back-up production at the Philippine location and the new Vietnam location. Also, advances are being made in automating the manufacturing process, but in addition to the existing focus on reducing personnel requirements, it will be necessary to incorporate a perspective of reducing the required space. For the components other than wire harnesses, we were able to respond through alternative production at other locations.

**Q: As the ratio of aluminum harnesses increases, what positive effects will this have on Furukawa Electric?**

**A:** As vehicles are equipped with more safety features, there tends to be an increase in the number of electrical wires in the harness. This results in additional space requirements and vehicle weight, which in turn has a negative impact on fuel efficiency, the environment and the marketability of the vehicle "performance". There is strong demand from automobile manufacturers for lightweight, and this has led to the increased use of aluminum wire harnesses.

**Q:** What effect has the shift towards aluminum wire harnesses had on your business model? Also, how has it changed your relationship with competitors in the market?

**A :** We do not have a large share of the overall wire harness market, but compared to the previous copper-only era, we are now better able to propose aluminum and thin copper wires in response to the demand for lightweight. The range of customers we can make proposals to is expanding. We have received requests from new customers, and although we are not looking to simply increase volumes and market share, I strongly believe our presence in the domains in which we can leverage our strengths is steadily increasing.

**Q :** What is Furukawa Electric's position within the SRC and BSS markets? Also, what is your relationship with competitors and market share?

**A :** For SRC, we have a global market share of over 40%. We are still somewhat weak in the European market, but we have a solid presence in the other regions. We have relationships with all of the OEM customers. For BSS, we are currently supplying Japanese customers only, but within this market, we have a share of about 60%. Following certification for Toyota's TNGA, we expect our products to be adopted more broadly outside of the existing customer base, and our share is forecast to increase to about 70% next year.

**Q:** Recall expenses were incurred again this year (Q1). What is your outlook for the future?

**A :** It was caused in relation to the design process 5 years ago. From 2018, recalls resulting from problems rooted in the past design work have occurred. Currently, we are promoting a RFD (risk free design) activity directed at preventive design. Also, when a problem occurs, we are focusing on preventing recurrence through problem resolution analysis that thoroughly reflects on the problem. I (Division Manager) am promoting these activities as the ultimate person in charge while also confirming the overall flow from design to production technology and quality assurance. As a result, the nonconformance ratio has been declining every year. We are responding with strong determination and quality awareness as a Tier 1 supplier.

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