

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

Date: November 4, 2021 (Thursday) 17:00 – 18:00

Contents: FY2021 Q2 Financial Results

Speakers: **Keiichi Kobayashi**, President & CEO

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

Q: The full-year operating income forecast for the Automotive Products & Batteries segment has been revised down from JPY 12.0 billion to JPY 4.0 billion. Next year, will it be possible to recover profits to a level exceeding JPY 10.0 billion? Also, given the great uncertainty in the business environment, what is your current feeling concerning this segment?

A: Operating income in Q4 is expected to be generally the same as last year, and we believe it will be possible to recover the profits to a level exceeding JPY 10.0 billion next year. Concerning the soaring raw material and transportation expenses, we intend to discuss the situation with our customers directed at realizing appropriate price levels, so the full impact of the higher costs will not be reflected in lower profits. Next year, the business is expected to recover to pre-COVID-19 levels.

Q: Will the improvement in this segment occur from Q4? Also, will profit levels next year quadruple those in Q4?

A: Operating income in Q4 this year will be about the same as Q4 last year. I believe there will be fluctuations in quarterly operating income (similar to normal years).

Q: Due in part to the failure to achieve the planned Q2 North America optical cable shipment volumes and the impact of soaring raw material costs, I have the impression that second half profits are still insufficient, and doubling second half profit levels next year is also not sufficient. What are your thoughts regarding this situation?

A: As explained on Page 6 of the Current Situation and Future Initiatives, sales of the high value added rollable ribbon cable are growing. In the state of Georgia, which is where our optical cable plant is located, the vaccination rate is particularly below the national average, and we have taken a range of actions in response. Although seasonal factors will have an impact, shipment volumes are gradually increasing, and this will lead to further profit

improvement going forward. Concerning the response to soaring raw material costs, we will consult with customers while sharing information.

Q: In the Communications Solutions segment, despite the slow progress in the first half, you have kept the full-year forecast unchanged. Given the fact that Q3 is typically a weak period for optical fiber and cable due to seasonal factors, the profit levels in the second half appear to be quite aggressive. According to the detailed breakdown of the improvements expected in the second half shown on Page 12 of the FY2021 Q2 Financial Results, reducing the raw material costs and transportation expenses and adjusting prices to appropriate levels are expected to greatly improve profits, but to what extent do you expect profits to improve in Q3 and Q4?

A: Sales are continuing to grow steadily in the second half, and the ratio of rollable ribbon cable orders is increasing, including for data centers. Also, shipments will steadily improve in the second half as the result of increased productivity in the North America optical cable business. Concerning the efforts to reduce the soaring raw material costs and transportation expenses, we are moving forward with procurement from multiple suppliers, utilization of alternative materials and increasing the efficiency of the shipping methods. Also, concerning the realization of appropriate price levels, (based on the status of consultations with customers,) we have made some progress already and expect to make more progress going forward. The benefits of these actions will likely appear mainly in Q4. Concerning the bar graph on Page 12 (Reducing the raw material costs and transportation expenses and realizing appropriate price levels), about 30-40% of the improvement is expected to be through realizing appropriate price levels.

In addition, digital coherent products, which were negatively affected by reduced demand resulting from customer inventory adjustments and COVID-19 lockdowns in Southeast Asia in the first half, are expected to recover from Q3. Sales of specialty fibers are also expected to increase in the second half compared to the first half.

Q: According to Page 7 of the Current Situation and Future Initiatives, North America optical cable shipments were below production capacity. What are your thoughts regarding shipment volumes, and what actions will you take going forward?

A: Although we are certainly not satisfied with the current situation, based on the future pandemic related risks, we are implementing a variety of responses. Along with providing incentives to highly-skilled employees, management has been reorganized, and the turnover rate is starting to drop. In order to avoid delivery problems, operations are currently being conducted with slightly more personnel than usual, and while monitoring daily operations,

responses are being implemented with anticipation for the future.

Q : Today's explanation sounds similar to the one I heard six months ago. What has changed?

A : On the operating level, personnel have been reorganized, including new hiring. Also, the support from Japan has been expanded from support for production technology to other aspects such as support for transforming the structure of the plant itself.

Q : The soaring raw material costs and transportation expenses appear to be having a major impact on the company as a whole, but what impact have these had in each segment?

A : Soaring raw material costs and transportation expenses had an impact of about JPY 4.5 billion in the first half. The impact was split roughly in half between Communications Solutions and Functional Products. For the full year, the impact is expected to be around JPY 10.0 billion. In the Automotive Products business, significant air freight expenses have been incurred due to the emergency response resulting from the impact of COVID-19, so although the impact is not wholly caused by soaring prices, it will be about JPY 2.0 billion. The remaining amount will be roughly split between Communications Solutions and Functional Products.

Q : Will it be possible to adjust prices to appropriate levels in the Functional Products business?

A : Although there will be a time lag, we are moving forward with efforts to realize appropriate prices, and it is expected to lead to improved profits from Q3 into Q4.

Q : This year seems to have been positioned as an emergency management response year. While responding to the challenging management environment, you are also moving forward with new products, including steady orders for aluminum wire harnesses. Given the current management environment, have your expectations changed in regards to the growth of new products and new business fields?

A : The overall strength of the alloy (materials) technology and photonics technology in our aluminum wire harnesses is highly evaluated. Going forward, this business will grow as we acquire additional orders. In the power cable business, our service, design and initiatives for deep underground design technology directed at the future are also highly evaluated, and it is starting to become a value added business. In regards to copper strips, we are moving forward with transforming the product portfolio.

Recently, improving the optical cable business has been the main issue, but we are also

working to create new products and new businesses.

Bipolar storage batteries are progressing according to plan, and we are preparing to start shipping samples (by the end of the current fiscal year). We are moving forward based on a roadmap directed at establishing a full-scale business from 2025. In addition, we are also making preparations directed at the future, including space and DX, and we expect these efforts to gradually start to bloom as businesses from around 2025.

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