

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

Date: May 11, 2023 (Thursday) 18:30 – 19:45

Contents: FY2022 Full-year Financial Results / Progress in the 2025 Medium-term Management Plan

Speakers: **Hideya Moridaira**, President & CEO

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

Observers: **Satoshi Miyamoto**, Director, Corporate Executive Vice President and General Manager of the Strategy Division

Q : What do you feel is behind the slower demand in North America in the optical fiber and cable business?

A : The brakes have been applied to infrastructure investments, and customers still have product in inventory. Also, installation has not progressed due to a shortage of labor. Although demand has slowed recently, we believe the investments in increasing the speed and volume of telecommunications will remain ongoing over the medium to long-term.

Q : What initiatives are you taking to improve the price-to-book value ratio of less than 1?

A : With the objective of improving the earnings capability, we will concentrate on the high profitability businesses through revisions to the business portfolio. We expect a challenging start in FY23, but we will achieve our intended vision directed at FY24 and FY25. I believe that achieving our 2025 Mid-term Plan will lead to a higher stock price.

Q : Are profit levels facing strong headwinds in Q1?

A : The situation is expected to be quite challenging, but we anticipate a gradual improvement toward H2.

Q : What impact do you feel the Inflation Reduction Act (IRA) in the United States will have on the optical fiber and cable business?

A : We possess a local production site in the United States, but we are also importing (materials and other products) from several countries. For this reason, if the law is applied

as written, we will be impacted, but the situation remains unclear at this time. We cannot yet make any judgments about the level of risk. I have heard that the rulemaking will be finalized at the end of June, and we will continue to gather information and consider our response.

Q : During a past session, it was stated that the actual annual operating income capability of the Automotive Products & Batteries segment is around JPY 10.0 billion, but the operating income forecast for FY23 is only JPY 8.5 billion. What is the reason for this difference?

A : Fluctuations in customer production volumes caused by the semiconductor shortage are still having an impact, and the risk in relation to improved productivity has been incorporated into the forecast. There is no change to our outlook that the actual earnings capability is on the level of JPY 10.0 billion.

Q : What are your thoughts concerning the need for selection and concentration of the businesses?

A : We strongly feel the need for selection and concentration. On the other hand, we feel that the ability to withstand volatility, which is one the merits of a multi-business portfolio, is also important. We will narrow down the businesses as necessary with consideration for our management resources and the current situation and future potential of the business. In order to achieve Vision 2030, we are currently considering which businesses to focus on, and we will indicate this as a strategy going forward. Although we believe selection and concentration is necessary, we intend to maintain a balance with the merits of a multi-business portfolio.

Q : The Functional Products segment reported a loss in Q4 last fiscal year, but what is your outlook for improvement this year by product?

A : The strength of each business differs, but the thermal management products business continues to perform well and has exceeded the forecast to start this fiscal year. On the other hand, in the blanks for HDD business, demand rapidly fell from H2 of last fiscal year, and there is unlikely to be a recovery in H1 of this year. Overall, the segment is forecast to recover from H2.

Q : What progress has the Communications Solutions segment made toward achieving the 2025 Mid-term Plan?

A : Optical cable productivity is improving the North America. Demand has slowed recently,

but we are continuing to provide education with the aim of increasing the skill levels of the manufacturing personnel. We will work to ensure productivity does not drop again this year. In the 2025 Mid-term Plan, we are targeting sales of the high value-added rollable ribbon cable to account for 50% of total sales in FY2025, and improvement to the overall business is progressing as expected.

Q: The situation in the semiconductor and electronics markets continues to be difficult. Why do you expect increased profits in the Electronics Component Materials and Functional Products segments this fiscal year?

A: The situation in both markets is expected to be quite challenging in H1. On the other hand, thermal management products in the Functional Products segment have continued to perform well recently due in part to the AI projects. Also, blanks for HDD are performing slightly better than Q4 in the last fiscal year, and although the full-scale recovery will not occur until H2, the business has been improving somewhat faster than expected recently. In addition, in the tape for semiconductor process business, the activities aimed at aligning the specifications of new products for customers, which was difficult to do while demand was strong, are progressing, and the impact of these activities will gradually appear this year. In the Electronics Component Materials segment, we are expecting improvement to the product mix through increased sales of high value-added products, as well as benefits from productivity improvements.

Q: Concerning shareholder results, you have set forth a policy that balances between “stable and ongoing” and “payout ratio of 30%”, but which of these will be given more priority? You have lowered the dividend forecast for FY23 compared to FY22 (planned). Do you have any intent to avoid a lower dividend through actions such as future asset sales?

A: Based on a payout ratio of 30%, the dividend was set at JPY 80 for FY22 (planned) and JPY 60 for FY23 (forecast). We will work to grow profits with the aim of minimizing fluctuations every year to the extent possible, and while maintaining a baseline of 30%, we will aim to achieve profits that exceed the forecast.

Q: Against the 2025 Mid-term plan (FY25) targets of ROIC of 6% or higher and operating income of at least JPY 58.0 billion, I feel the forecast operating income for FY23 of JPY 24.0 billion means that you are still not fully achieving your potential. What improvements will you make directed at the targets? Specifically, what independent improvements do you plan to make?

A : For the operating income target of at least JPY 58.0 billion, the net sales target has been set at a level of JPY 1,100.0 billion, so the profit target incorporates improvement to operating income margins. We will work to improve the profit margins by improving costs and increasing high value-added products. We believe this can be sufficiently achieved through independent effort. In addition, we will work to thoroughly reduce the factors causing cost increases and also consider how cash is used. Internal targets have been set at a slightly higher level, so these targets incorporate risk. Going forward, while accelerating the improvements, we believe it is possible to achieve the 2025 Mid-term Plan targets by concentrating on our strengths in line with the recovery in the demand environment.

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