

FY2019 Q3 Financial Results

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FURUKAWA ELECTRIC CO., LTD.

Forward-Looking Statements

Projections of future sales and earnings in these materials are “forward-looking statements.” Management offers these projections in good faith and on the basis of information presently available. Information in these statements reflects assumptions about such variables as economic trends and currency exchange rates.

Forward-looking statements incorporate known and unknown risks as well as other uncertainties that include, but are not limited to, the following items.

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- Changes in exchange rates of the U.S. dollar, euro, and Asian currencies.
- Furukawa Electric Group’s ability to respond to rapid advances in technology.
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- Changes in the market value of securities held by the Furukawa Electric Group.

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FURUKAWA ELECTRIC CO., LTD.

◆ Through Q3 (first 9 months of FY2019), income declined on lower revenue compared to the same period last year

(JPY billion)

	Q3 (First 9 months)		
	FY18 Results	FY19 Results	YoY change
Net Sales	738.6	676.2	▲ 62.5
Operating income	30.7	15.3	▲ 15.4
Operating income margin	4.2%	2.3%	▲ 1.9

◆ Status of the main business segments

Negative factors

- Communications Solutions (Infrastructure) : Fiercer price competition in the optical fiber and cable and a delay in improving optical cable productivity in the North America
- Electronics & Automotive Systems and Functional Products : Impact of the market deterioration

Positive factors

- Energy Infrastructure (Infrastructure) : Improvement in the power cable business in Japan and overseas

- ◆ A recovery was expected to occur in H2 centered on Communications Solutions, but based on the Q3 results, the full-year forecast was revised

(JPY billion)

	FY2018 Results	*FY2019 Previous forecasts	FY2019 Forecasts	YoYchange	Change from previous forecasts
	a	b	c	c-a	c-b
Net Sales	991.6	910.0	900.0	▲ 91.6	▲ 10.0
Operating income	40.8	26.0	20.0	▲ 20.8	▲ 6.0
Ordinary income	39.1	22.5	18.5	▲ 20.6	▲ 4.0
Net income attributable to owners of the parent	29.1	11.0	10.0	▲ 19.1	▲ 1.0

*Announced on November 5, 2019

※ The company is paying close attention to the impact on the overall supply chain by the spread of the novel coronavirus, but given the many uncertainties, it has not been possible to reflect this event in the business forecast.

We hope this outbreak is quickly brought under control and pray for the safe recovery of everyone infected with this virus.

◆ Main factors in the downward revision to operating income

- Communications Solutions (Infrastructure) : Impact of falling optical fiber and cable prices mainly in Europe and Asia and the delay in improving optical cable productivity in North America
- Electronics & Automotive Systems : Continue weak market and increase expenses in relation to the reorganization
- Functional Products : Although data center demand has started to recover, expenses increase in relation to the restoration of the copper foil plant in Taiwan

- ◆ Full-year cash flow is expected to be as forecast, and there is no change to the year-end dividend forecast
(Annual dividend per share (forecast) : JPY 85)

1. Strengthen the global single management structure

Corporate Vice President of Furukawa Electric is to be assigned to the newly established position, EVP, Global Operations for Fiber & Cable Technology of OFS

Accelerate the strengthening of “capabilities of manufacturing” and increase cost competitiveness

- Thoroughly streamline and improve the optical cable manufacturing sites in the North America directed at recovering competitiveness, and reduce the number of defective products and lead time - enhance the support between sites -
- Reduce fiber costs through optimum global production

2. Enhance the solutions for 5G / data center needs

Provide valuable solutions through joint creation with major partners

- High performance fiber / high density cable / connection products
 - Sales ratio of rollable ribbon cable: Aim to more than double by FY2021–22 compared to FY2019 levels
- Evolution of ITLA - high output, narrow bandwidth, low power consumption, small-sized, etc.

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FY2019 Q3 Results – P/L Summary

(JPY billion, JPY/kg, JPY/USD)

	FY18Q3 (First 9 months)		FY19Q3 (First 9 months)		YoY change		Breakdown of change (Q3)
	10-12		10-12		10-12		
	a	a'	b	b'	b-a	b'-a'	
Net sales	738.6	251.2	676.2	221.0	▲ 62.5	▲ 30.2	▲62.5 (▲8%) See page 9
Operating income	30.7	13.2	15.3	4.5	▲ 15.4	▲ 8.6	▲15.4 (▲50%) See page 10
(Margin)	4.2%	5.2%	2.3%	2.0%	▲ 1.9	▲ 3.2	
Profit/loss in equity method affiliates	0.8	0.4	1.3	1.5	+0.5	+1.1	
Foreign exchange gain/loss	▲ 1.0	▲ 0.4	▲ 0.4	0.4	+0.6	+0.8	
Ordinary income	28.7	12.8	13.9	5.5	▲ 14.8	▲ 7.3	▲14.8 (▲52%)
(Margin)	3.9%	5.1%	2.1%	2.5%	▲ 1.8	▲ 2.6	
Extraordinary income/loss	1.1	2.3	1.1	▲ 1.0	+0.0	▲ 3.3	•Extraordinary income +0.5 (4.4 → 4.9)
Income taxes	8.5	5.2	6.7	2.5	▲ 1.8	▲ 2.7	•Extraordinary loss ▲0.5 (▲3.3 → ▲3.8)
Net income attributable to non-controlling interests	2.6	1.0	0.9	0.7	▲ 1.7	▲ 0.3	
Net income attributable to owners of parent	18.7	8.8	7.4	1.4	▲ 11.2	▲ 7.5	▲11.2(▲60%)
(Margin)	2.5%	3.5%	1.1%	0.6%	▲ 1.4	▲ 2.9	
Average copper price	753	738	689	683	–	–	
Average exchange rate	111	113	109	109	–	–	

Revision of FY2019 Full year forecasts

– Summary P/L

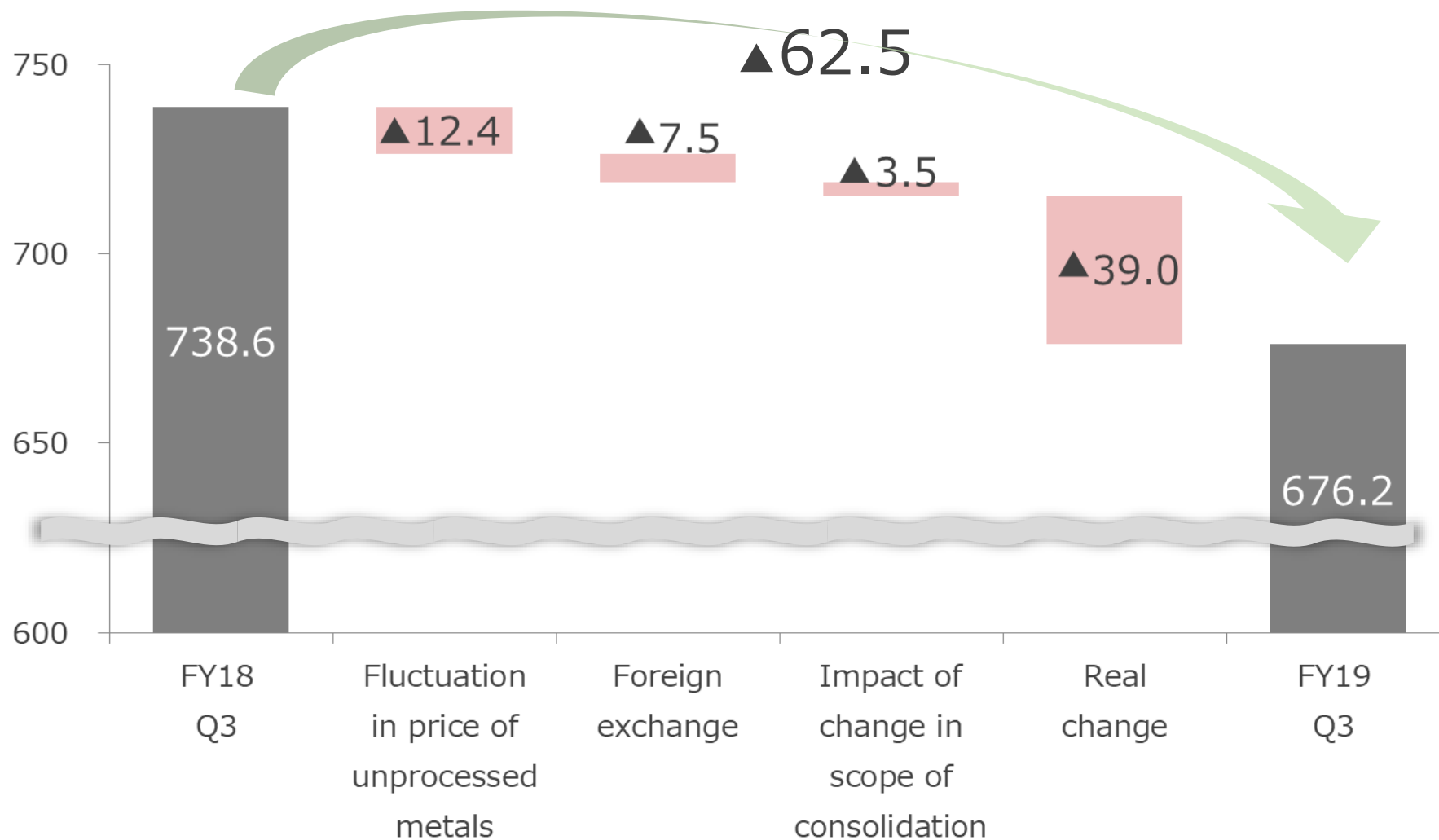
(JPY billion, JPY/kg, JPY/USD)

	FY18 Results	*FY19 Previous Forecast	FY19 Forecast	YoY change	Change from previous forecast
	a	b	c	c-a	c-b
Net sales	991.6	910.0	900.0	▲ 91.6	▲ 10.0
Operating income	40.8	26.0	20.0	▲ 20.8	▲ 6.0
(Margin)	4.1%	2.9%	2.2%	▲1.9	▲ 0.6
Profit/loss in equity method affiliates	1.7	–	–	–	–
Foreign exchange gain/loss	▲ 1.1	–	–	–	–
Ordinary income	39.1	22.5	18.5	▲ 20.6	▲ 4.0
(Margin)	3.9%	2.5%	2.1%	▲ 1.9	▲ 0.4
Extraordinary income/loss	▲ 3.3	▲ 1.5	+2.8	+6.1	+4.3
Income taxes	3.3	–	–	–	–
Net income attributable to non-controlling interests	3.3	–	–	–	–
Net income attributable to owners of parent	29.1	11.0	10.0	▲ 19.1	▲ 1.0
(Margin)	2.9%	1.2%	1.1%	▲ 1.8	▲ 0.1
Average copper price	747	666	677		
Average exchange rate	111	107	108		

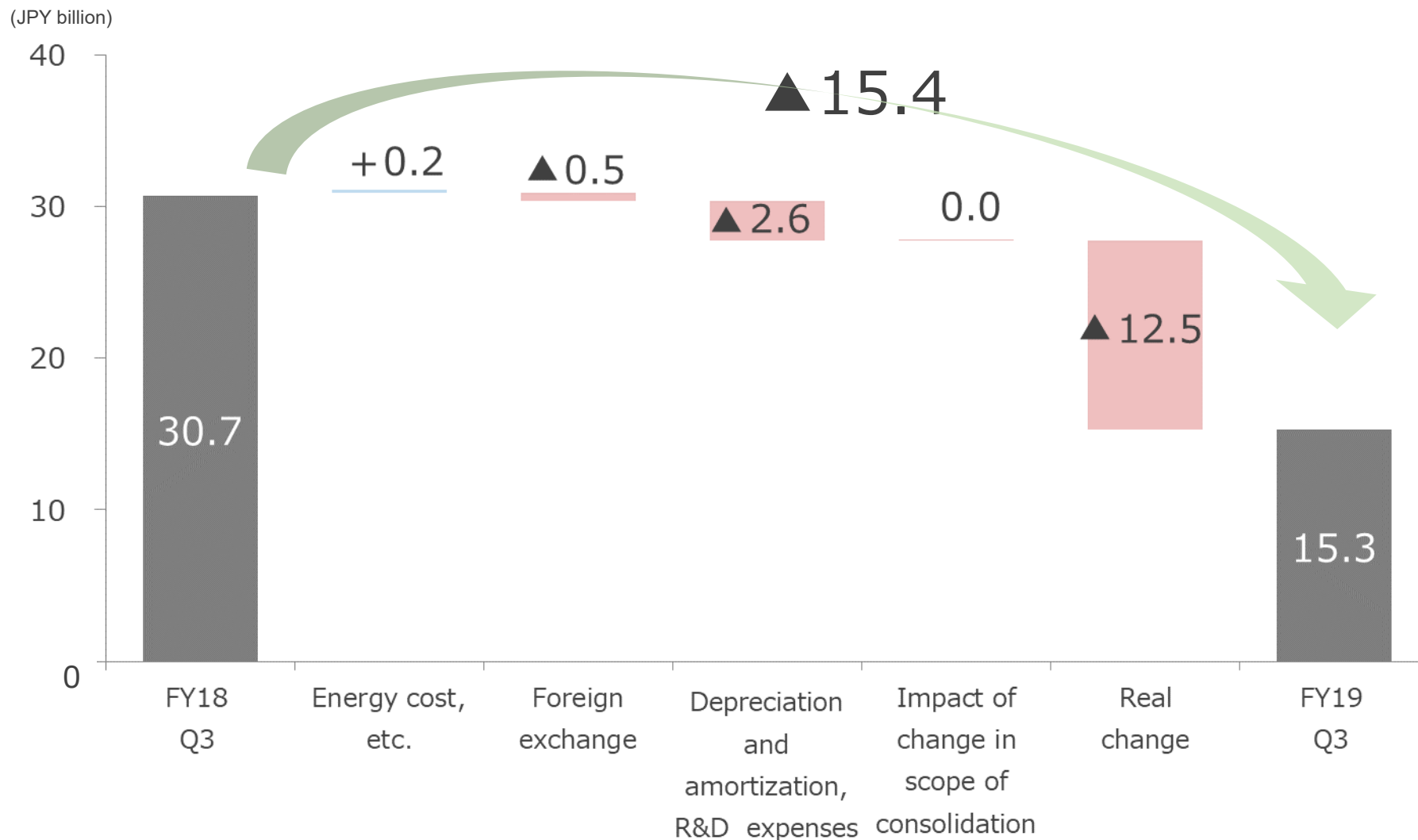
*Announced on November 5, 2019

Analysis of Changes in Net Sales (YOY)

(JPY billion)



Analysis of Changes in Operating income (YOY)



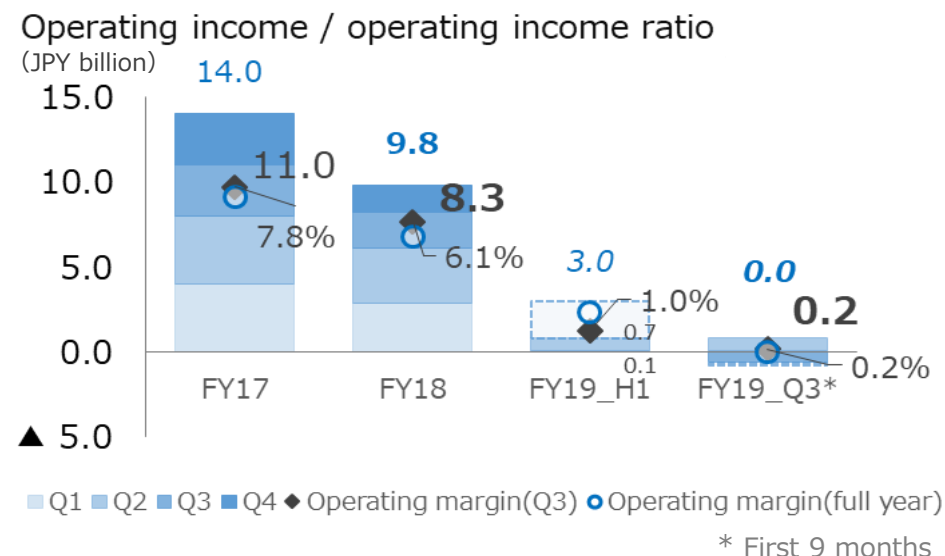
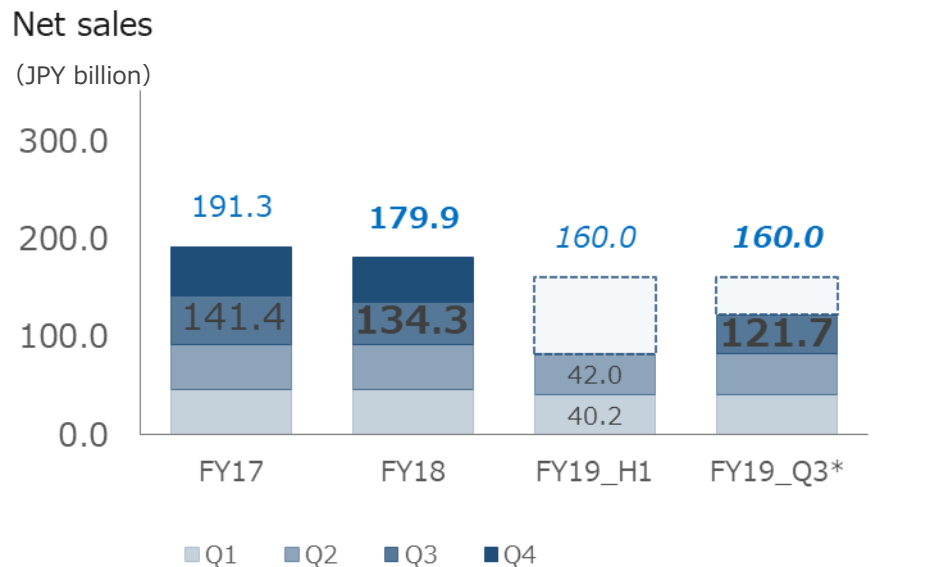
Net Sales and Operating Income by Segment

(JPY billion)

	Q3 (First 9 months)			Full year					
	FY18 Results	FY19 Results	YoY	FY18 Results	*FY19 Previous Forecast	FY19 Forecast	YoY	Change from previous forecast	
N e t S a l e s	Infrastructure	212.4	204.1	▲ 8.3	288.0	275.0	275.0	▲ 13.0	+0.0
	Communications Solutions	134.3	121.7	▲ 12.6	179.9	160.0	160.0	▲ 19.9	+0.0
	Energy Infrastructure	78.1	82.3	+4.3	108.1	115.0	115.0	+6.9	+0.0
	Electronics & Automotive Systems	416.5	378.8	▲ 37.7	561.7	515.0	510.0	▲ 51.7	▲ 5.0
	Automotive Products & Batteries	195.6	185.4	▲ 10.2	267.3	255.0	255.0	▲ 12.3	+0.0
	Electronics Component Materials	220.9	193.4	▲ 27.5	294.4	260.0	255.0	▲ 39.4	▲ 5.0
	Functional Products	119.2	87.9	▲ 31.4	149.3	120.0	115.0	▲ 34.3	▲ 5.0
	Service and Developments, etc.	36.1	38.8	+2.7	48.6	50.0	50.0	+1.4	+0.0
	Elimination of intra-company transactions	▲ 45.5	▲ 33.3	+12.2	▲ 55.9	▲ 50.0	▲ 50.0	+5.9	+0.0
	Total	738.6	676.2	▲ 62.5	991.6	910.0	900.0	▲ 91.6	▲ 10.0
O p e r a t i n g I n c o m e	Infrastructure	4.6	0.3	▲ 4.3	7.4	3.0	0.0	▲ 7.4	▲ 3.0
	Communications Solutions	8.3	0.2	▲ 8.1	9.8	3.0	0.0	▲ 9.8	▲ 3.0
	Energy Infrastructure	▲ 3.6	0.1	+3.8	▲ 2.4	0.0	0.0	+2.4	+0.0
	Electronics & Automotive Systems	13.9	10.0	▲ 3.9	19.5	15.5	14.0	▲ 5.5	▲ 1.5
	Automotive Products & Batteries	9.2	7.4	▲ 1.8	13.5	12.0	11.5	▲ 2.0	▲ 0.5
	Electronics Component Materials	4.7	2.6	▲ 2.2	6.0	3.5	2.5	▲ 3.5	▲ 1.0
	Functional Products	11.9	5.4	▲ 6.4	13.5	8.0	7.0	▲ 6.5	▲ 1.0
	Service and Developments, etc.	0.3	▲ 0.3	▲ 0.5	0.3	▲ 0.5	▲ 1.0	▲ 1.3	▲ 0.5
	Elimination of intra-company transactions	0.1	▲ 0.1	▲ 0.2	0.1	0.0	0.0	▲ 0.1	+0.0
	Total	30.7	15.3	▲ 15.4	40.8	26.0	20.0	▲ 20.8	▲ 6.0

*Announced on November 5, 2019

1 -(1) Infrastructure (Communications Solutions)



Q3 Operating income: YoY difference JPY ▲8.1 billion

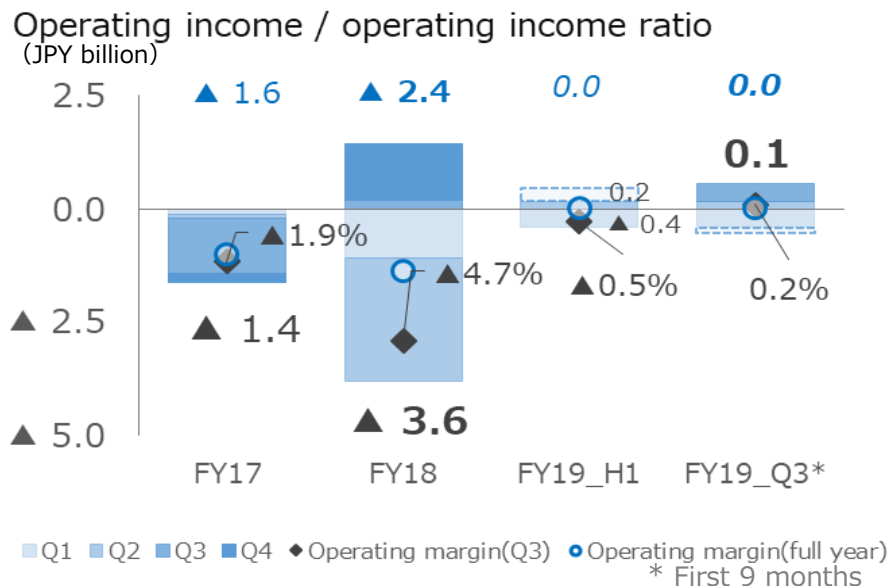
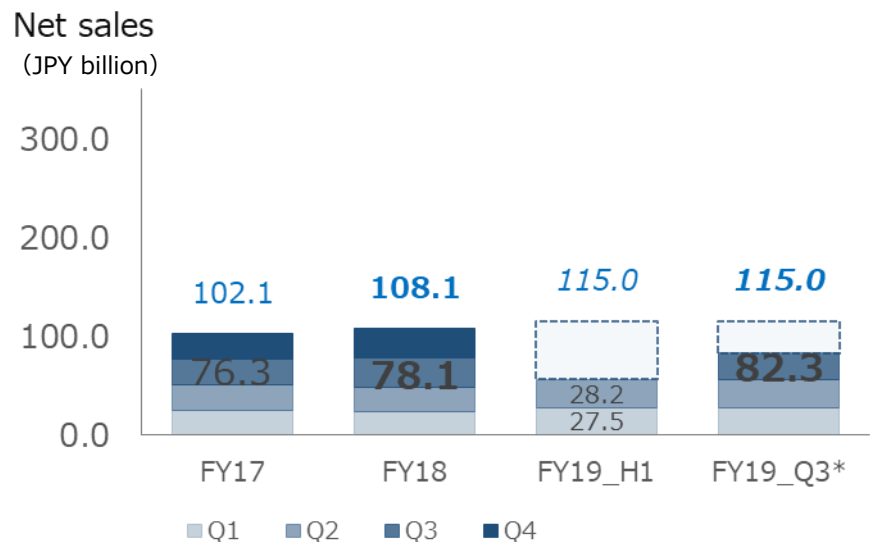
- : Positive growth factors ■: Negative growth factors
- Decreased revenue due to not simply tracking the falling optical fiber and cable prices mainly in Europe and Asia
- Optical cable demand continues to grow in the North America, but slow to improving productivity and increase production
- Increased in R&D expenses and depreciation
- Increased revenue from advancements in mass production of next generation digital coherent products

Q4 Forecast

- : Topics ✓ : Focus point
- Delay in improving optical cable productivity in the North America, and realizing the benefits of increased production
- Impact of the falling optical fiber and cable prices will continue
- Promote a shift to next generation digital coherent products
- ✓ Strengthen cost competitiveness of optical fiber and cable
- ✓ Accelerate sales of ultra-high count multi-core cable and high performance fiber for data centers, etc.
- ✓ Develop next generation products directed at the establishment of 5G networks, and promote the solutions business

Blue : Full year Net Sales , Operating Income
 Black : First 9 months Net Sales , Operating Income

1 -(2) Infrastructure (Energy Infrastructure)



Blue : Full year Net Sales , Operating Income
 Black : First 9 months Net Sales , Operating Income

Q3 Operating income: YoY difference JPY +3.8 billion

□ : Positive growth factors ■ : Negative growth factors

- Steadily captured the demand for underground power cables in Japan
- Subsidiary in China was profitable
- Completed the unprofitable overseas projects in FY2018
- Last year, provision for loss on construction contracts were recorded for new energy projects
- Industrial power cable benefited from the effects of improved profitability

Q4 Forecast

• : Topics ✓ : Focus point

- Although the temporary suspension of operations at some of the facilities in the Power Cable Division following a typhoon that made landfall in September had an impact, due in part to full-year profitability at the subsidiary in China, the full-year plan should be achieved
- ✓ Steadily capture the demand for ultra high voltage and renewable energy products in Japan
- ✓ Strengthen the installation capabilities and the facilities for submarine cables
- ✓ Reduce costs through increased productivity
- ✓ Expand sales of the lightweight, flexible (easy to install) aluminum CV cable and components

2-(1) Electronics & Automotive systems (Automotive Products & Batteries)

**Q3 Operating income:
YoY difference JPY ▲1.8 billion**

□: Positive growth factors ■: Negative growth factors

- Slower sales of wire harnesses in each region from Q2
- Increase in fixed costs such as R&D expenses and depreciation directed towards the upcoming projects starting from FY2020

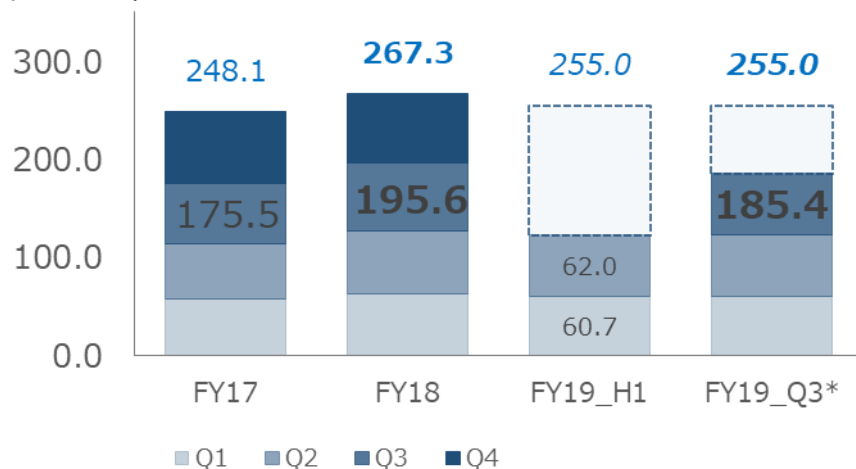
Q4 Forecast

• : Topics ✓ : Focus point

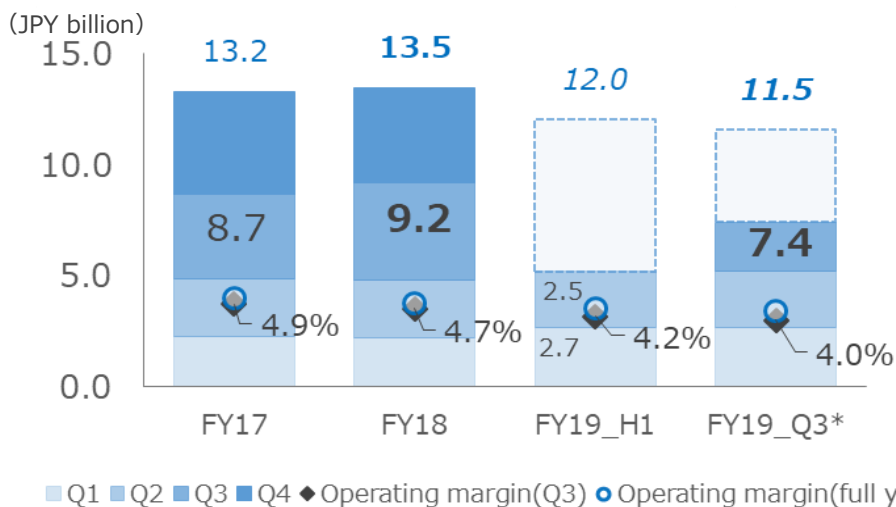
- Market environment will remain challenging
- ✓ Proactively capture the demand for weight reduction resulting from the advances in vehicle electrification and autonomous driving
- ✓ Steadily make investments for increased production in Asia directed at increasing wire harness shipments to the North America
- ✓ In relation to advanced driver-assistance systems, work to receive new orders for next generation high precision radar, as well as expand sales of existing models and complete the 2020 model high performance BSS*

*BSS; Battery State Sensor

Net sales
(JPY billion)



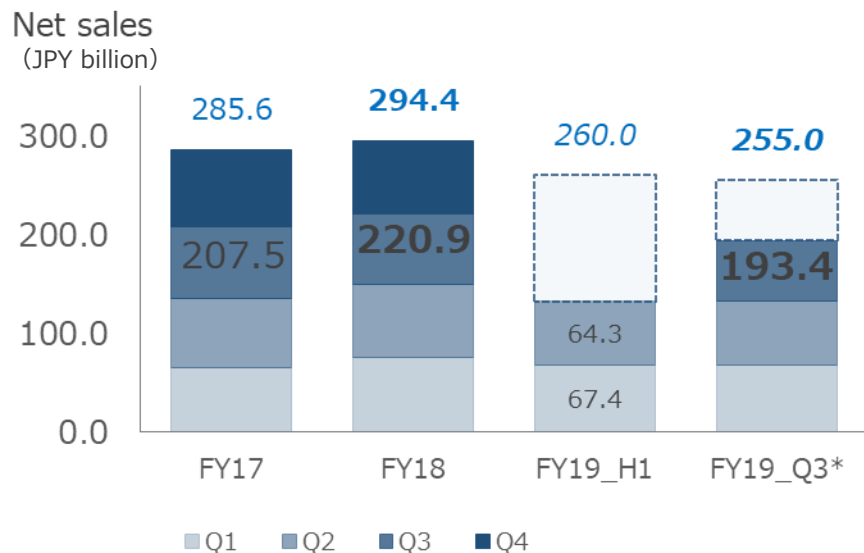
Operating income / operating income ratio



* First 9 months

Blue : Full year Net Sales , Operating Income
Black : First 9 months Net Sales , Operating Income

2-(2) Electronics & Automotive systems (Electronics Component Materials)



**Q3 Operating income:
YoY difference JPY ▲2.2 billion**

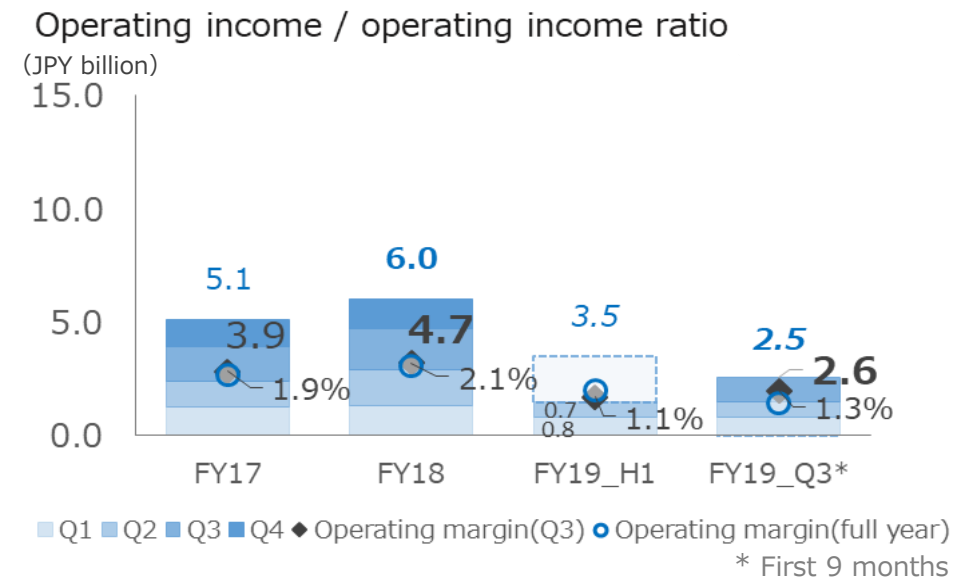
□ : Positive growth factors ■ : Negative growth factors

- Demand for electronics products, including smartphones, weakened further than expected
- Strong sales of magnet wires for electric cars

Q4 Forecast

• : Topics ✓ : Focus point

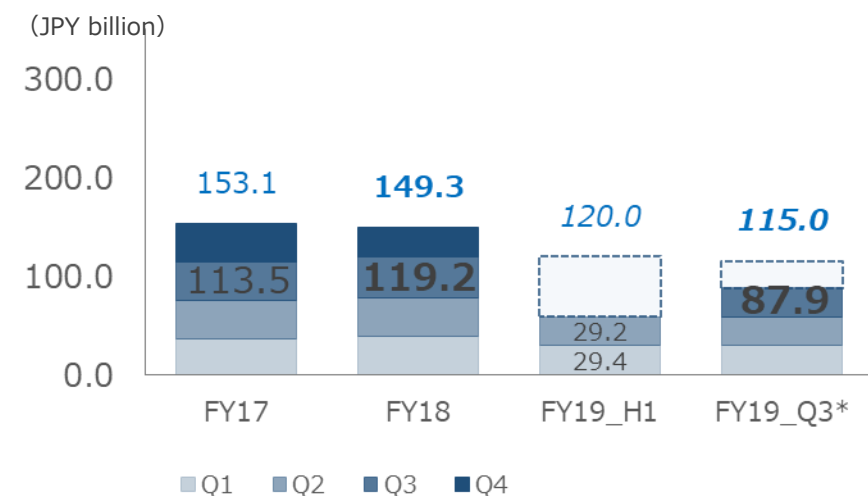
- Demand for electronics products will continue to be weak
- Increased expenses in relation to the business reorganization
- ✓ Expand sales of heat-resistant oxygen free copper strips for power semiconductors
- ✓ Expand sales of original alloys that support the increasingly higher performance of electronic devices
- ✓ Expand sales of differentiated magnet wire for 5G infrastructure and inductors for servers
- ✓ Increase adoption of magnet wire for automotive products globally



Blue : Full year Net Sales , Operating Income
Black : First 9 months Net Sales , Operating Income

3 Functional Products

Net sales

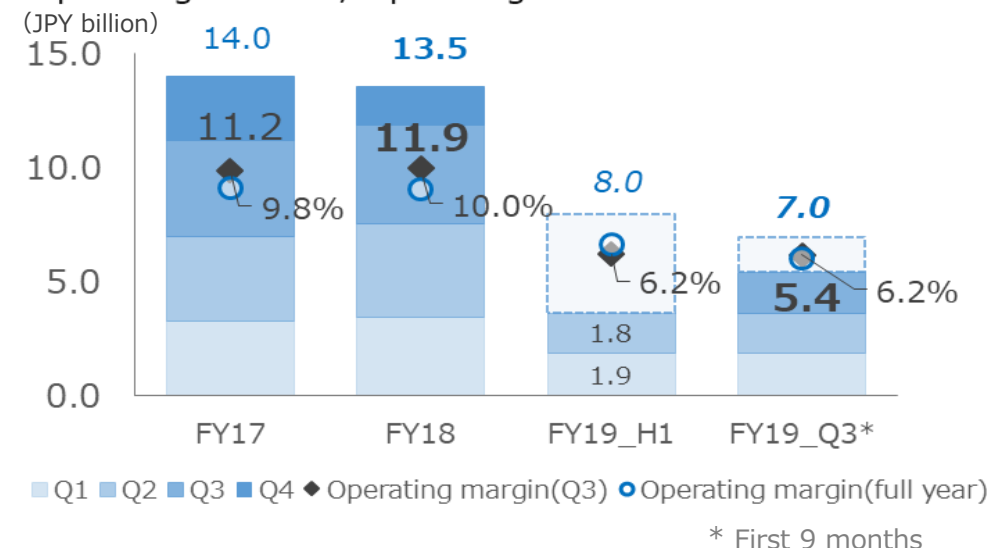


**Q3 Operating income:
YoY difference JPY ▲6.4 billion**

□ : Positive growth factors ■ : Negative growth factors

- Decreased revenue in the copper foil business due to the impact of the fire and increased expenses in relation to the restoration of the copper foil plant in Taiwan
- Weaker demand for products for data centers, memory, smartphones, etc. compared to strong demand last year
- Underground cable-protecting pipes are strong

Operating income / operating income ratio



Q4 Forecast

• : Topics ✓ : Focus point

- Recovery in data center demand
- ✓ Develop next generation products that will form the foundation of new revenue mainly in the data center market
- ✓ Develop new markets and propose new applications
- ✓ Improve further productivity and strengthen the ability to respond to market changes

Blue : Full year Net Sales , Operating Income
Black : First 9 months Net Sales , Operating Income

FY2019 Q3 results – B/S Summary

(JPY billion)

	End of 18Q4	End of 19Q3	Change
	a	b	b-a
Current assets	420.5	397.3	▲ 23.2
Cash and bank deposits	44.6	38.0	▲ 6.6
Notes and accounts receivable trade	219.3	199.2	▲ 20.2
Inventories	122.9	132.4	+9.6
Non-current assets	397.5	416.8	+19.3
Tangible fixed assets	229.4	249.6	+20.3
Intangible fixed assets	12.2	14.1	+1.9
Investments and other assets	155.9	153.1	▲ 2.8
Total Assets	818.0	814.2	▲ 3.9
Current liabilities	331.6	335.6	+4.0
Non-current liabilities	206.5	195.9	▲ 10.6
Total Liabilities	538.1	531.5	▲ 6.6
Shareholders' equity	243.1	246.4	+3.3
Accumulated other comprehensive income	4.6	3.5	▲ 1.1
Net income attributable to non-controlling interests	32.3	32.8	+0.5
Total Net assets	279.9	282.6	+2.7
Total Liabilities and Net assets	818.0	814.2	▲ 3.9
Interest-bearing liabilities	246.0	261.2	+15.2
Capital ratio	30.3%	30.7%	+0.4
NET D/E ratio	0.81	0.89	+0.08

Inventories

Increased by 9.6 billion yen

Mainly due to the impact of projects and construction work planned to be recorded as sales from the fourth quarter

Tangible/intangible fixed assets

Increased by 22.2 billion yen

Impact of increased CAPEX 15.4 billion yen

Adoption of IFRS 16 Lease to overseas affiliates 7.3 billion yen

FY2019 Q3 results

–CAPEX, Depreciation & amortization and R&D expenses

(billion yen)

	FY18 Q3 Results	FY19 Q3 Results	YoY change	*FY19 Previous Forecast	FY19 Forecast	Change from previous forecast
	a	b	b-a	c	d	d-c
CAPEX	32.1	37.1	+5.0	48.0	50.0	+20.0
Depreciation and amortization	19.7	21.7	+2.0	30.5	30.5	–
R&D expenses	15.9	16.5	+0.6	23.0	23.0	–






*Announced on November 5, 2019

- ※ Revise the full-year forecast for CAPEX
(incorporate the measures taken to recover from the disasters)

Directed towards FY2020

- ◆ Fundamental improvement of Communications Solutions
- ◆ Strengthen the key businesses and improve the low-margin businesses through management focused on asset efficiency
- ◆ Strengthen the management foundation through the Transformation Division

FY2020 Operating income image

JPY billion		FY18 Result	FY19 Forecast	FY20 Forecast	Assumptions
Infrastructure	Communications Solutions	9.8	0.0		Strengthen the cost competitiveness of optical fiber and cable Recovery in the data center market environment
	Energy Infrastructure	▲2.4	0.0		Continued advancements in acquiring underground and submarine cable projects in Japan and overseas
Electronics & Automotive Systems	Automotive Products & Batteries	13.5	11.5		Continued weak market (Expect growth from FY2021 as a result of deliveries for new vehicle models)
	Electronics Component Materials	6.0	2.5		Following the reorganization, some of the businesses will be deconsolidated Recovery in the electronics market environment
Functional Products		13.5	7.0		Recovery in the data center market environment

※ Promote the companywide initiatives such as the Core Business Reformation Project (enhancement of business management & work style reforms) and the creation and establishment of new businesses

Thank you very much
for your attention.

Bound to  ***Innovate***

(Appendix) Segments and Business Divisions

Segment	Sub-segment	Business Division
Infrastructure	Communications Solutions	Optical Fiber and Cable Products
		FITEL Products
		Broadband Solutions Business
	Energy Infrastructure	Power Cable
		Industrial Cable & Power Cable Accessories
Electronics & Automotive Systems	Automotive Products & Batteries	Automotive Products
		Batteries
	Electronics Component Material	Electric Conductor
		Magnet Wire
		Copper & High Performance Material Products
		Copper Tube
Functional Products	AT & Functional Plastics	
	Thermal Management Solution & Products	
	Memory Disk	
	Copper Foil	
Service and Developments, etc.		