

# **Progress of 2020 Mid-term Business Plan**

## **Overview of FY2016 and Actions in FY2017**

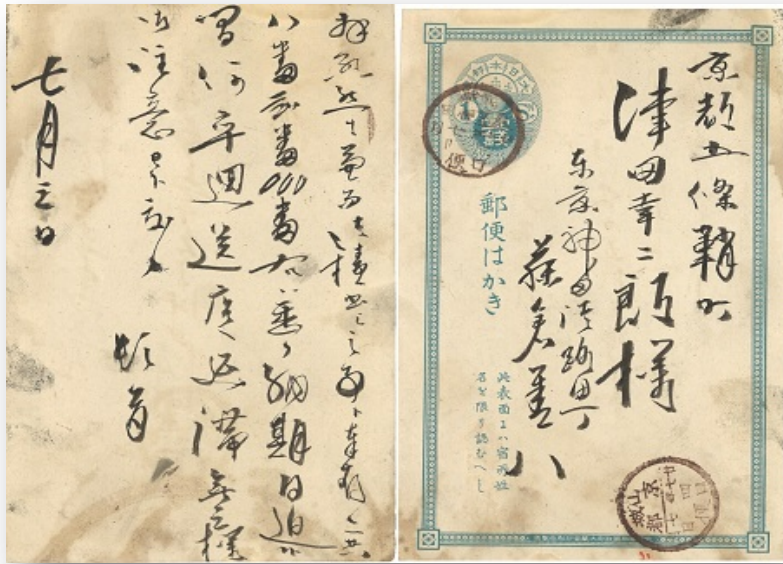
**"Let's transform ourselves,  
and bridge to the future! 2020 Mid-term"**

**Fujikura Ltd.**

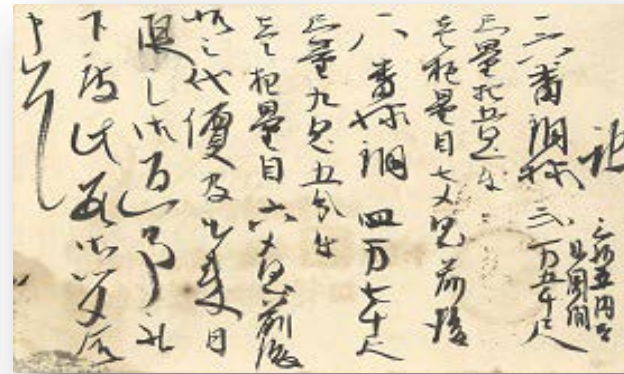
**Masahiko Ito, President & CEO**

**May 9, 2017**

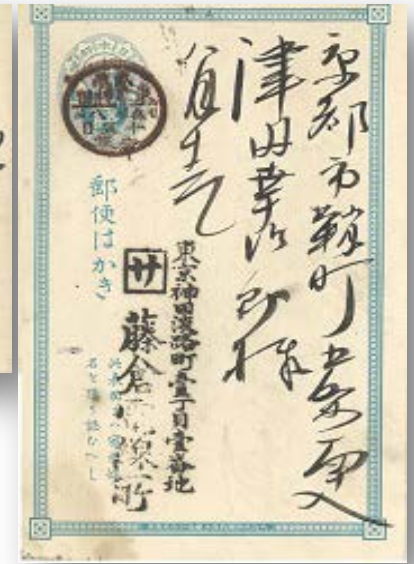
# In the beginning Over a century ago...



**Date: July 3, 1894**



**Date: August 13, 1896**



On April 1, 2016, when new Fujikura Dia Cable Ltd. integrated cable & wire productions of Mitsubishi Cable Industry (MCI), I was told that many post cards written by the founder Zenpachi Fujikura are preserved by Tsuda Electric Wire & Cable Co., Ltd.

Two of the valued post cards were kindly returned to Fujikura after more than a century. There is no other Zenpachi's mementos in Fujikura, which all burned down due to the big earthquake and World War II.

# ➤ **Maintain and strengthen "Earning Power"**

## **FY2017 is the true starting year**

### Goals in FY2020

- **Ratio of operating income to net sales: 7.0% or higher**
- **Net sales: 900 billion yen**
- **ROE: 10% or higher**
- **D/E ratio: 40:60 (0.66 times)**

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- 2. Key measures of 2020 Mid-term Business Plan and their progress**
- 3. Key actions in FY2017**
- 4. Return to Shareholders**

# **1. Review of FY2016 Financial Results** **and FY2017 Forecasts**

# (1) Review of FY2016 Financial Results and FY2017 Forecasts

(Unit: Yen in billion)

	FY2016 Results	2H FY2017 Forecast	FY2017 Forecasts	FY2017 Forecasts —FY2016 Results Change
Net Sales	653.7	340.0	700.0	46.2
Operating Income	34.2	16.0	38.0	3.7
Ratio of Operating Income to Net sales (%)	5.2	4.7	5.4	0.2
Equity in Net Income (Loss) of Affiliates	1.0	0.8	1.8	0.7
Ordinary Income (Loss)	32.5	15.5	36.0	3.4
Net Income (Loss) Attributable to Parent Company Shareholders	12.9	8.0	20.0	7.1
Net Income per Share (JPY)	44.61	28.05	70.11	25.50
Dividend per Share (JPY)	10.00	7.00	14.00	4.0
ROE (%)	6.4 ※	—	9.0	2.6
Exchange Rate (JPY/USD)	108.36	110.0	110.0	—
Copper Price ('000JPY/ton)	604	650	650	—

※Without past corporate income tax in Thailand (2.7 billion yen), ROE would be 7.8%.

## (2) Review of FY2016 Financial Results and FY2017 Forecasts

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### ➤ Review of FY2016

✓ **Net sales was decreased and operating income increased** on a YoY basis.

Ratio of operating income to net sales was **5.2%** up 0.4% YoY.

Although **the yen has appreciated**, our earning power is on a track to recovery, and resulted in **an increased operating income**.

✓ It was a good start of the first year of 2020 Mid-term. However, we recognize that this owes to the fruits of various measures of the previous 2015 Mid-term plan.

### ➤ Actions in FY2017

✓ We regard this fiscal year as "**true start**" and the effects of various measures started in FY2016 will be seen in FY2017.

✓ We will build a firm base for **sustainable growth** with **speedy** response to the recent strong demand in **the telecommunication business**.

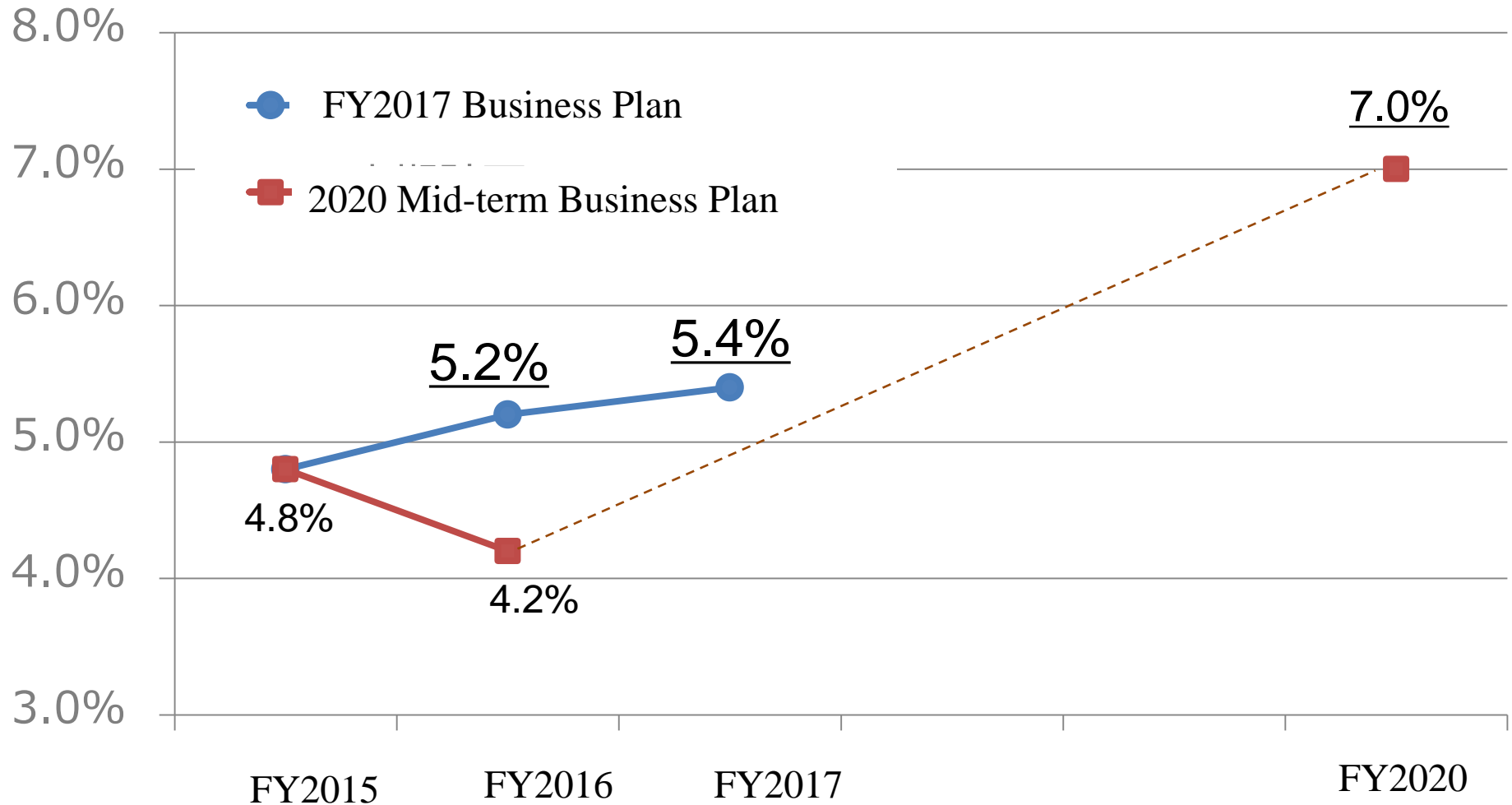
We will keep strengthening our earning power, and improve ratio of operating income to net sales forecast as **5.4%**.

**We will not simply pursue scale. Our focus will be on profit margin.**

### (3) Progress of 2020 Mid-term Business Plan

#### Ratio of operating income to net sales

Ratio of operating income to net sales





## **2. Key measures of 2020 Mid-term Business Plan and their progress**

# (1) Key measures of 2020 Mid-term Business Plan and their progress

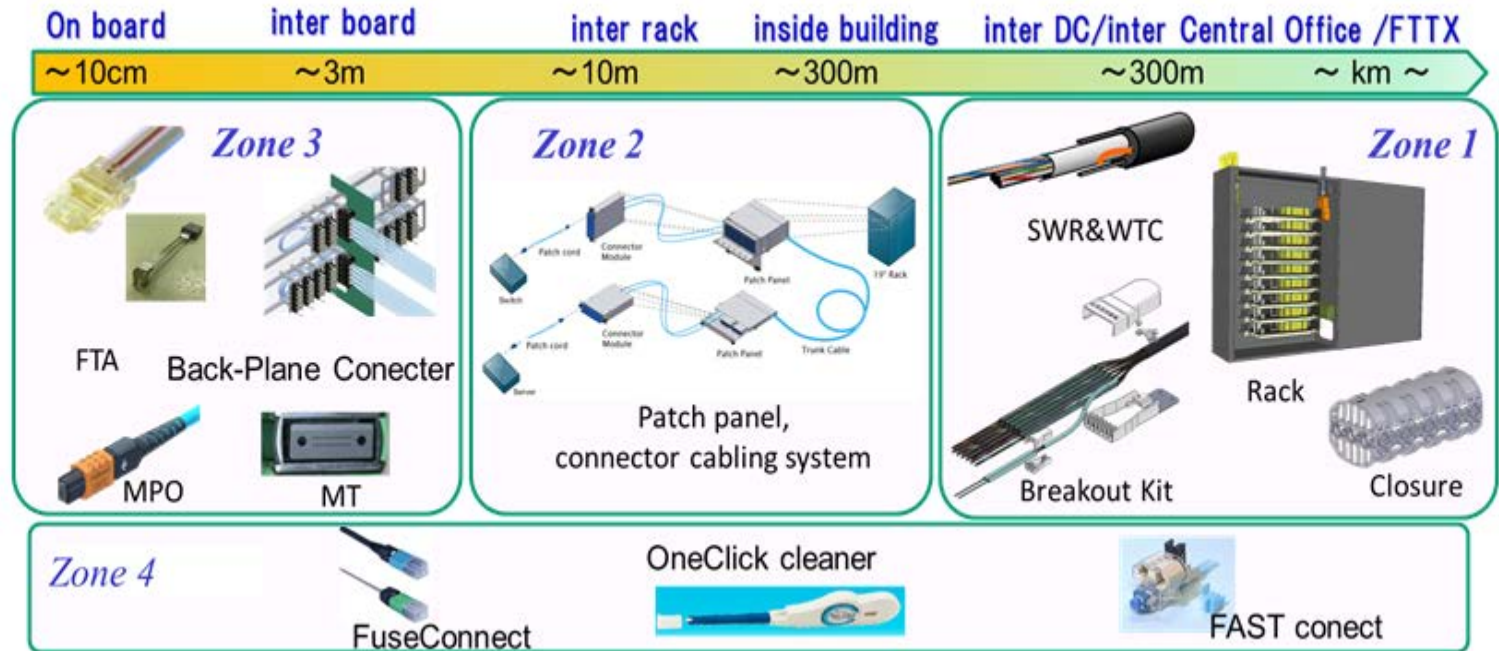
As a customer value creating company,  
we will become a promising company with a future  
with "strong earning power" and "power of strong metabolism"!

<p><b>Developing deeper ties with strategic customers</b></p>	<ul style="list-style-type: none"> <li>■ <b>Developing deeper ties with strategic customers</b> <ul style="list-style-type: none"> <li>- Work to achieve greater business growth</li> <li>- Seize new business opportunities</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>i) Strengthen EPC/ service business</li> <li>ii) Approach to overseas key customers by providing strategic products (SWR/WTC)</li> <li>iii) Strengthen relation with strategic customers further.</li> </ul>
<p><b>Accelerate new business creation</b></p>	<ul style="list-style-type: none"> <li>■ <b>Strengthen the structure for promoting new business</b></li> <li>■ <b>Key areas</b> <ul style="list-style-type: none"> <li>- Automotive related</li> <li>- Industrial machinery</li> <li>- Medical devices</li> </ul> </li> </ul>	<p>Actions in Fiber laser business</p> <ul style="list-style-type: none"> <li>- Introduce more competitive products</li> <li>- Strengthening marketing capabilities</li> </ul>
<p><b>Open innovation</b></p>	<ul style="list-style-type: none"> <li>■ <b>Supply the missing pieces of portfolios and value chains and create new value for customers</b></li> <li>■ <b>Speed up technology development, business development and business growth</b></li> </ul>	<p>New actions to create innovation</p> <ul style="list-style-type: none"> <li>- Develop 2030 Vision</li> <li>- Hold a matching event with start-up companies</li> </ul>
<p><b>Management reform &amp; business structural reform</b></p>	<ul style="list-style-type: none"> <li>■ <b>Response to Corporate Governance Code</b></li> <li>■ <b>Improve the quality and speed of decision-making in a diverse range of business</b></li> <li>■ <b>Strengthen the management base</b></li> </ul>	<ul style="list-style-type: none"> <li>① Structural reform for domestic cable &amp; wire business             <ul style="list-style-type: none"> <li>- Viscas Corporation reorganization</li> <li>- FDC business integration</li> </ul> </li> <li>ii) Management reform</li> </ul>

# (2) Developing deeper ties with strategic customers (i)

- Responding to strong demand of the expanding data center business (i)
  - Expansion of DC capital investment of long standing
  - Further progress of cloud service and drastic increase of data traffic

A data center market is of a wide-range



## (2) Developing deeper ties with strategic customers (i)

- Responding to strong demand of the expanding data center business (ii)
  - DC's demand is expected to be stable in the future.

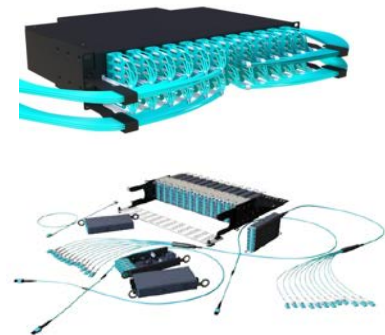
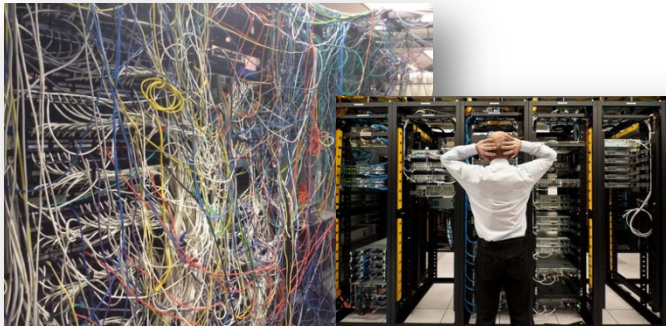
### (i) Scope of the Company

→ Capture optical interconnection solution business in DCs market thoroughly.

→ Market is of a wide range. (Connector, terminal, ultra multi-core cable etc.)

### (ii) Contribution of AFLIG acquired in December, 2015

→ Started to work for a globally expanding hyper scale/enterprise DC customers



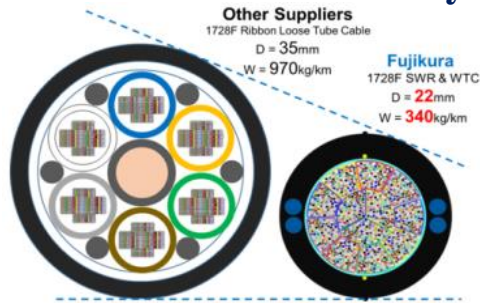
# (3) Developing deeper ties with strategic customers (ii)

## ➤ Approach to overseas key customers by providing strategic products (Spider Web Ribbon/Wrapping Tube Cable)

- We have been recognized by customers since last year. Expect revenue growth in FY2017
- We will improve optical cable business's profitability by introducing high value added products.

### Thin and light super multi- core cable which is easy to install.

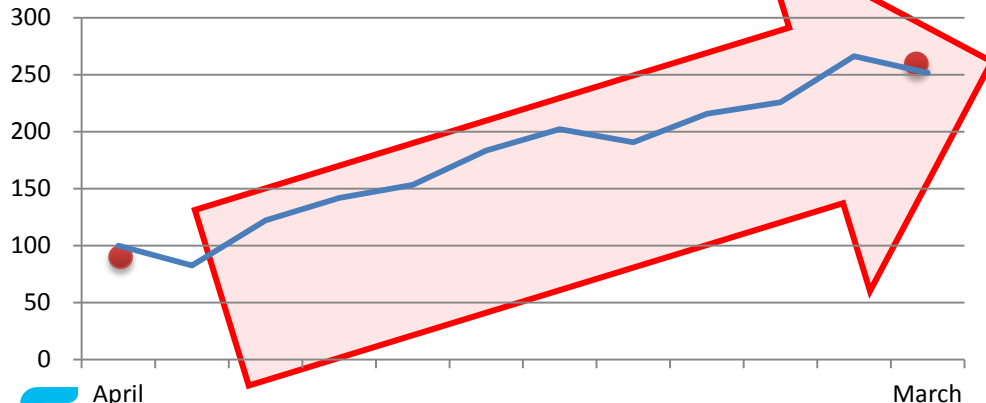
Reduced -external diameter- by 37% and -weight- by 64% compared with conventional 1728-core-cable



Comparison of cross section of optical cables



Rapidly growing net sales of SWR/WTC (Net sales in April in 2016 was regarded as 100)

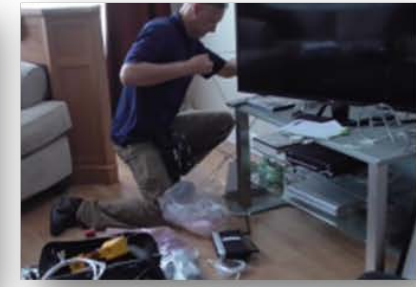


# (4) Developing deeper ties with strategic customers (iii)

## ➤ Strengthen EPC/ service business

- Business expansion and strengthening of profitability has been bearing fruits steadily.

### 1. EPC service for overseas large telecommunication companies



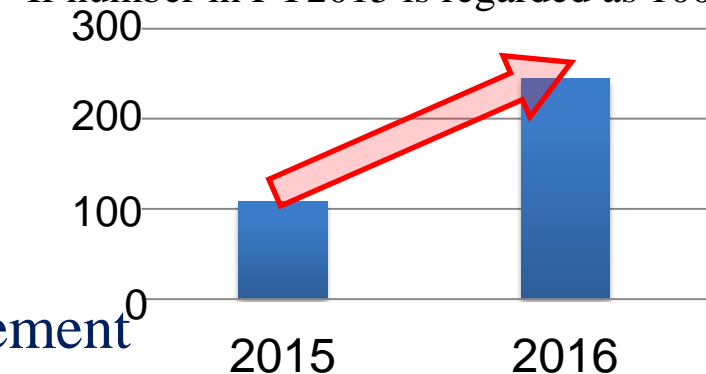
(i) FTTH engineering for cities is 2 times up YoY.

(ii) Construction in a big city in the country

(iii) New entry into FTTH construction for an electric power company

### Number of construction project in cities

If number in FY2015 is regarded as 100



### 2. Emerging countries (Myanmar, Brazil)

Receiving orders by market environment improvement

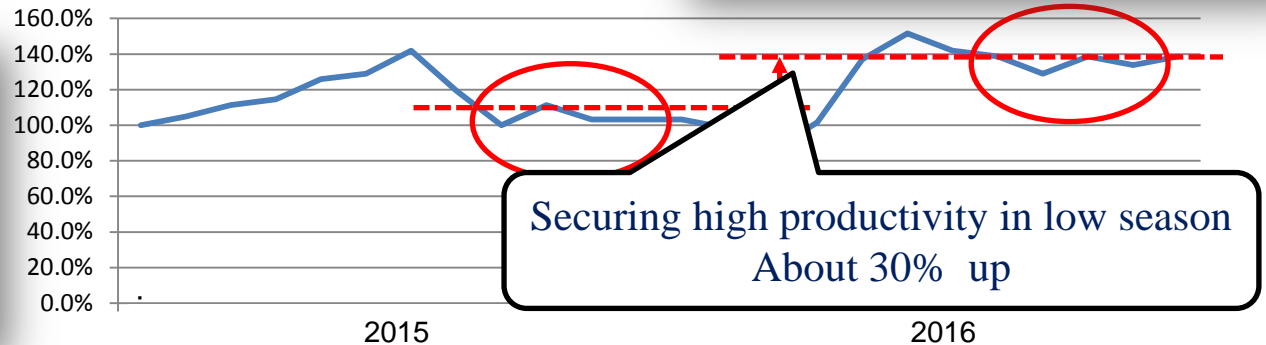
# (5) Developing deeper ties with strategic customers (iv)

- **Aggressive response to customers' requirements in FPC Business**
  - Respond to customers' requirements by high quality products and technologies as well as flexible production system.

## Building flexible production system

- (i) Turning fixed cost into variable cost
- (ii) Manpower saving by automatization of inspection process and other method.

Improvement in productivity per capita



We will enhance improvement further in FY2017

# (6) Accelerate new business creation

## ➤ Actions in Fiber laser business

- Introduction of new competitive products
- Expanding production line-up  
Develop more competitive products

### Develop new customers

- A-Company (Japanese maker, cutting purpose)  
→ Got the green light for field evaluation  
with in the first half of FY2017
- B-Company (Overseas maker,  
for their processing machine)  
→ Sign off supply agreement
- C-Company (Overseas maker, welding purpose)  
→ Started serious business talk



Show in Europe



# (7) Open innovation

## ➤ Started to take new steps to create innovation

○ Developed '2030 Vision'

→ Respond to "Future society's challenges"

→ Define four market domains Fujikura commits to be involved in.

(i) Recognize milestones toward the 2030 Vision.

(ii) Approach which is beyond existing businesses' growing curves.

### Four Business Domains

◆ Advanced Communication

◆ Energy & Industry

◆ Life-Assistance

◆ Vehicle

✓ Collaboration with CREWW



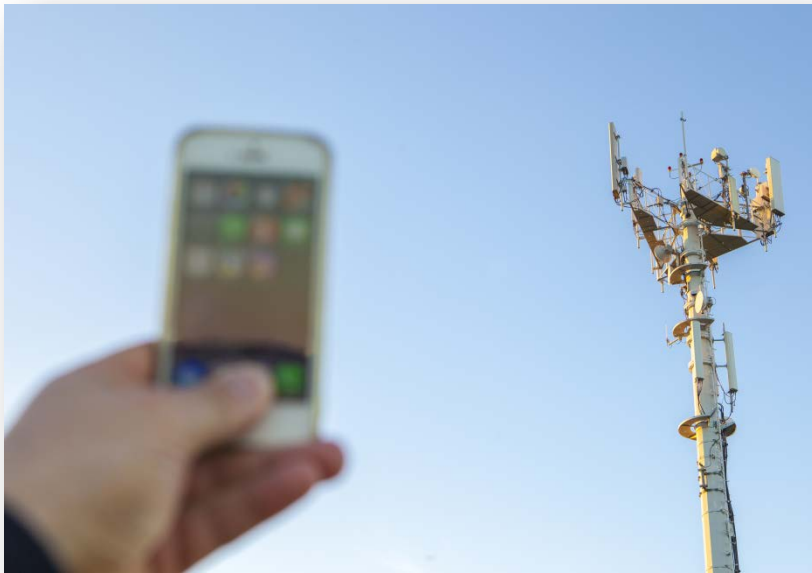
# (8) Achievement of business structural reform

## ➤ Synergies by FDC business integration

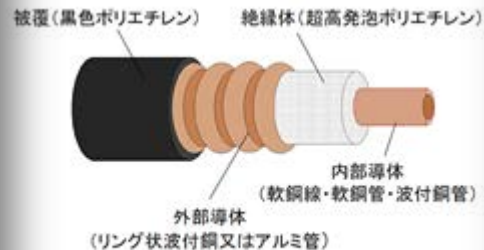
### ○ Coaxial cables and connectors

→Coaxial cables for base stations; Demand has been returning by LTE advance related and other factors

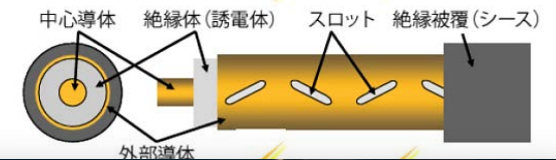
→Leaky coaxial cables; Won some businesses related to railway infrastructure



### ○ Coaxial cables for base stations



### ○ Leaky coaxial cables



# (9) Management reform

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## ➤ Management reform

### Governance renovation

#### Transition to a company with an audit and supervisory committee

→Speed-up of decision-making and strengthen supervisory function

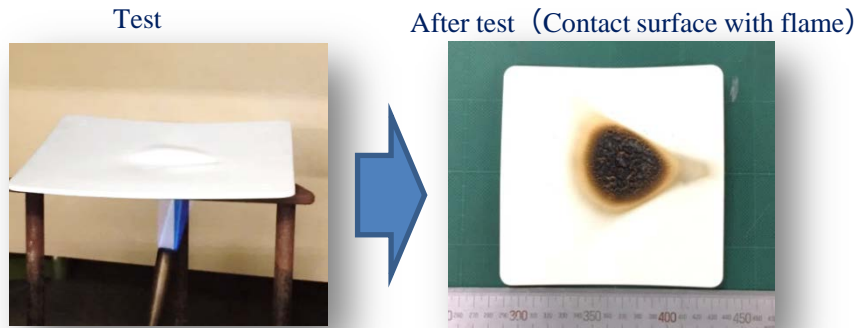
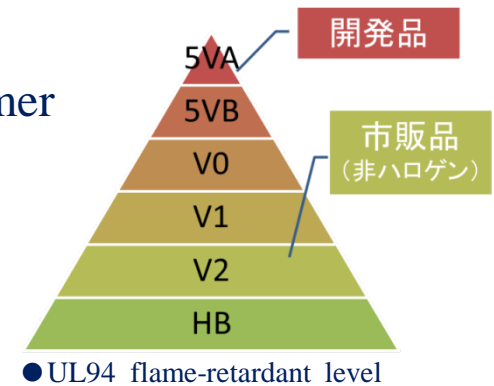
Scheduled to become a company with an audit and supervisory committee at the shareholders' meeting in June, 2017

- ✓ Reform of the board of directors meeting
  - Focus on discussions on the legally required subjects and other important ones including business plan.
  - Strengthen monitoring and supervisory function:  
Increase the number of outside board members 1→4
- ✓ Delegation of authority to executive directors/board members  
Speed-up of decision-making
- ✓ Establishment of a nominating committee and a remuneration committee
  - More than half of those members should be outside board members, and they carry out assessments of each executive directors' business execution performance in an objective way.

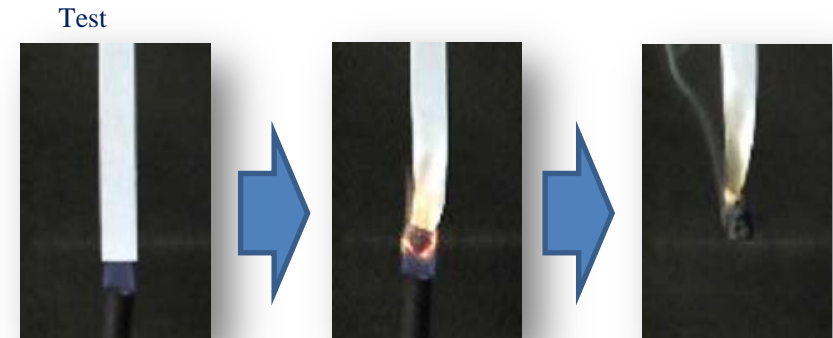
# (10) R&D Topics

- **Expand a long standing material technology to a different field**
  - Apply technology of electric wire coat material development to other use
  - There are many inquiries from volume manufacturer.

- Environmental performance Use of a halogen-free flame-retardant polymer
- Flame-retardant UL-94 5VA equivalent @2mmt  
V-0 equivalent @0.4mmt
- Other Light and good moldability  
(Feasible to mold by extrude and injection)



With 2mm, equivalent to 5VA



With 0.4mm, equivalent to V-0

**Achieved one of the highest level of flame-retardant as a halogen-free flame-retardant polymer material**

## 3. Key actions in FY2017

# (1)Key actions in FY2017

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## ➤ Power & Telecommunication Systems Company

- Telecommunication Systems Segment:
  - Respond to the strong global demand with speed and strengthen foundations
  - Maintain the current position by investment on production to expand its capacities.
- Power Systems Segment :
  - Strengthen EPC business
  - Implement further structural reform of domestic wire & cable business

## ➤ Electronics Business Company

- Improve production system of securing quality and of responding to demand change further
- Expand product portfolio by new product and field development
- Capital investment will focus on next-generation product development and production innovation

## ➤ Automotive Products Company

- Improve profitability in Europe and LCC sites
- Expand Chinese business

## 4. Return to Shareholders

# (1) Profit Return Basic Policy

## Executing well-balanced profit allocation

- Concentrated investment to growing businesses (next growth)
- Improvement of financial strength (capital ratio, D/E ratio)
- Flexible share buyback



## Improvement of per-share profit

- Keep stable in dividend
- 2020 Mid-term basic policy : Dividend payout ratio 20%

**Expected dividend: Interim 7.0 yen per share, Year-end 7.0 yen share  
(Total 14.0 yen per share)**



As a customer value creating company,  
we will become a promising company with a future  
with **"strong earning power"**  
and **"power of strong metabolism"!**



Special Notes:

Statements in this presentation that relate to future results and events (including statements regarding Fujikura's revenue and earnings guidance) are based on Fujikura's current expectations. Actual results in future periods may differ materially from those currently expected because of a number of risks and uncertainties. These factors include the effects of general economics on the level of demand for Fujikura's products and services, and on Fujikura's ability to manage supply and delivery logistics; the level and intensity of competition in the electronic and telecommunication equipment industries, the pricing pressures that result, the ability of Fujikura to timely and effectively manage product transitions, component/material availability and cost; the ability of Fujikura to develop new products based on new or evolving technology; and the ability of Fujikura to manage its inventory levels to minimize excess inventory.

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