

# **1<sup>st.</sup> Half FY2019**

# **Financial Results**

**Recent Changes in the Environment &  
Measures Going Forward**

**Fujikura Ltd.**

**Masahiko Ito, President & CEO**

**October 31, 2019**

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# 1. Responding to Recent Changes in the Environment

# Environment Changes & FY2019/FY2020 Forecasts

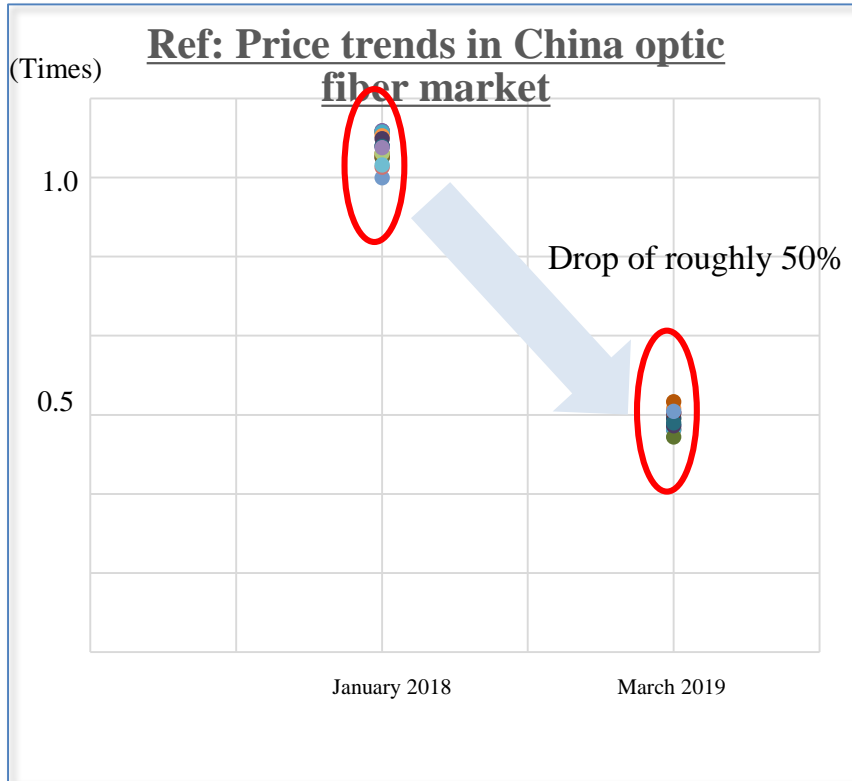
- The profit structure of our two major businesses has changed rapidly.
- Harsh environment is likely to continue for some time.

Operating Income: ¥B  
FY2018 act. → FY2019 est.

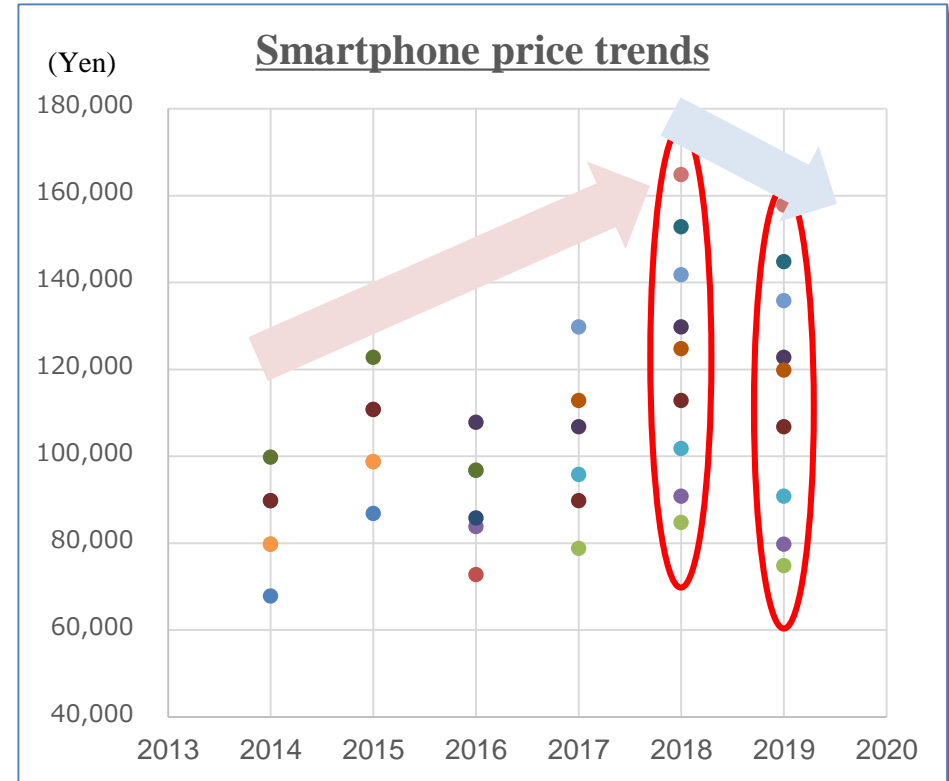
	Radical changes	Measures for H2 to FY2020
<b>Power &amp; Telecommunication Systems</b> Operating Income 17.7→11.4	<ul style="list-style-type: none"> <li>• Sharp drop in the price of optical fiber from China</li> <li>• Supply capacity outweighs demand</li> <li>• 1H shipments delayed</li> </ul>	<ul style="list-style-type: none"> <li>• Boost optic fiber production operating rate and improve productivity</li> <li>• Plan production increase owing to ongoing brisk demand for optic-related products</li> <li>• Recovery in Hyper Scale Data Center related products – sales recovery and progress in customer portfolio expansion</li> <li>• Expand SWR/WTC sales and peripheral domains</li> <li>• Preparing for further price cuts of optic fiber</li> </ul>
<b>Electronics</b> Operating Income 8.3→0.6	<ul style="list-style-type: none"> <li>• Demand has saturated</li> <li>• Change in customer's strategies and business models</li> <li>• Intensified price competition</li> <li>• Misread inventory and production</li> </ul>	<ul style="list-style-type: none"> <li>• Embark on full-fledged yield improvements</li> <li>• Improve total productivity by reviewing site strategies</li> <li>• Review the order strategy</li> <li>• Fortify launch in automotive and medial fields</li> </ul>

- Continue to “save” (cost reduction, productivity improvement, capex control) and “gain” (expand sales of strategic products, sustain prices, secure margins) after factoring continued market trends for FY2020
- We are seeing a positive turnaround at some SBUs level. And we believe that some SBUs in FY2020 will benefit from the positive factors, which will increase billions of yen totally compared to this fiscal year. To that end, we will implement full-scale recovery measures.

# Price Downtrend in our Two Pillar Business Areas



Optic fiber prices dropped sharply due to bidding by major carriers in China in March 2019. Accordingly, we understand this is dragging down prices for optic fiber from China, as well as other regions.



Customer smartphone prices are shifting to a downward trend. Consequently, we understand this is putting downward pressure on component prices.

## **2. Customer-oriented Value Creation**

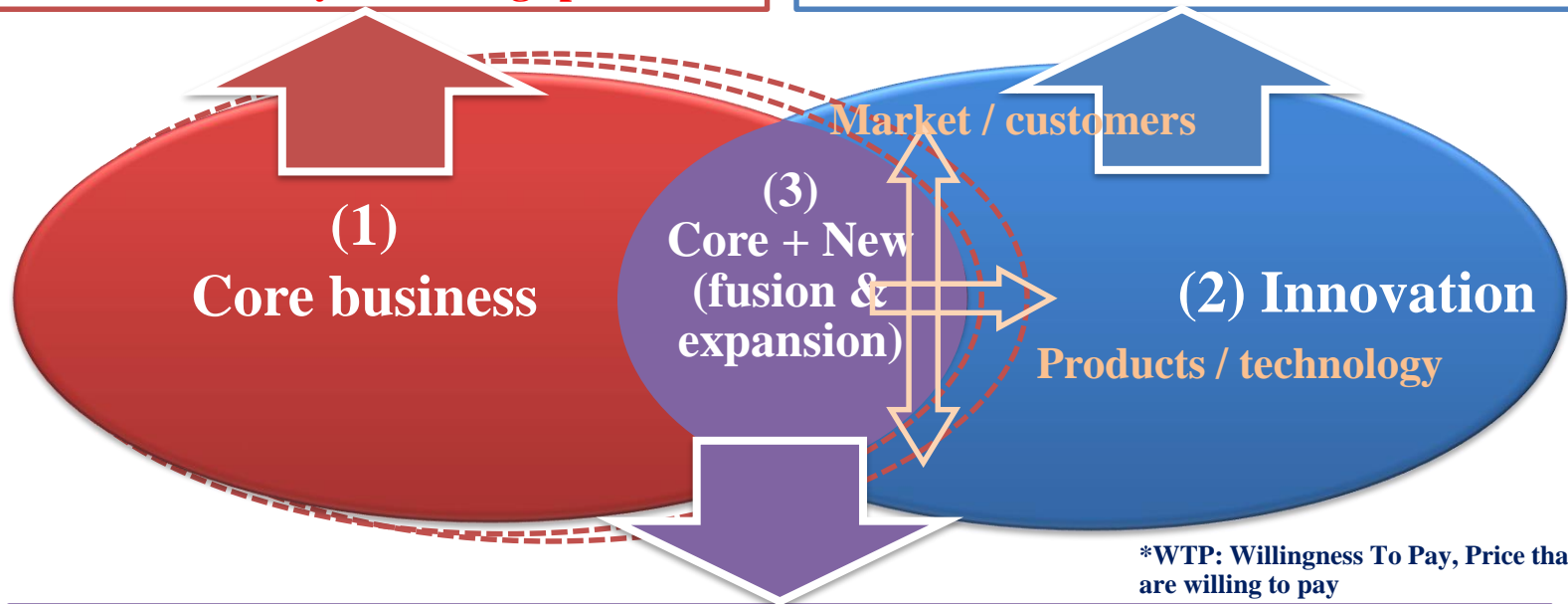
# Customer-oriented Value Creation

## Existing domains (Competition focuses on QCD)

- Market: Drastic change in the market of 3 pillar businesses
  - Formation: Sharp expansion during current mid-term business plan
  - Operations: Fortify operational excellence
- ⇒ **Achieve recovery in earnings power!**

## Innovation

- The conventional way does not work
  - Areas different from the conventional business model of Fujikura
  - Need to boost pace of commercialization
- ⇒ **Boldly tackle innovation!**



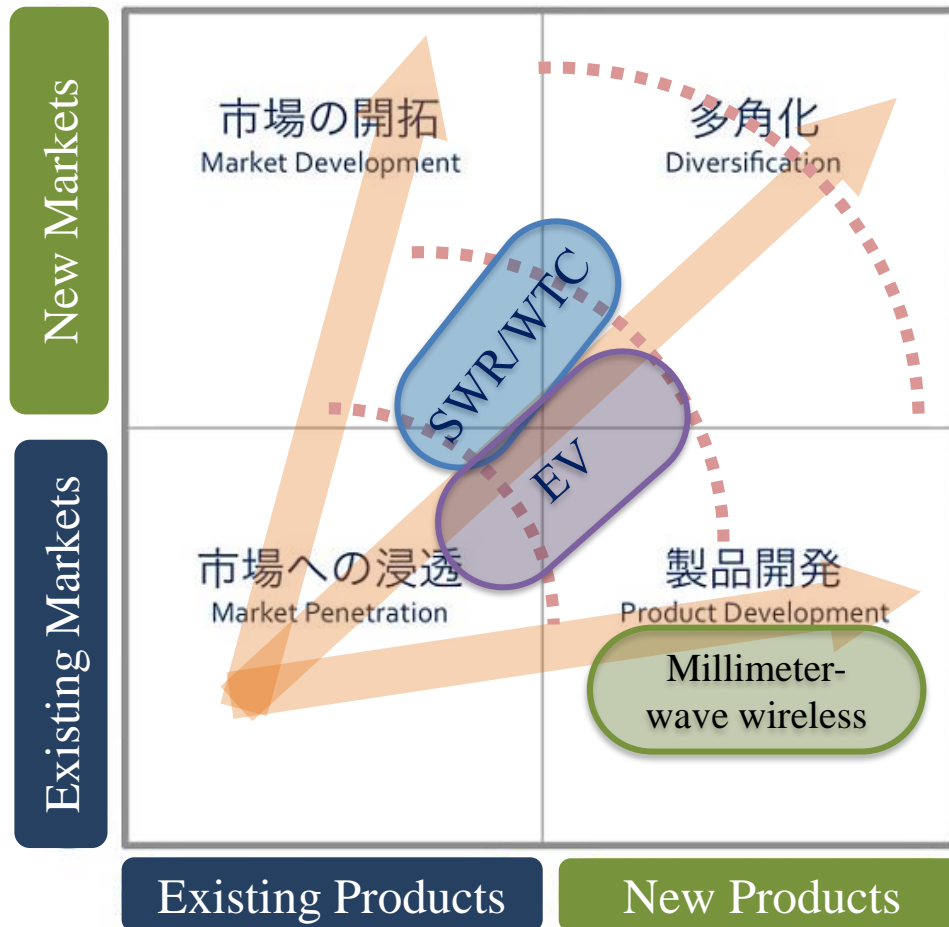
\*WTP: Willingness To Pay, Price that customers are willing to pay

## Our Target: Domains where there is a higher "WTP"

As "The Best Co-innovation Partner", we will enhance customer experience by collaborating with customers in this fusion areas between existing business and innovation, and increase "WTP".

# Expand Core + Innovation Domain

## Each business topic and its positioning

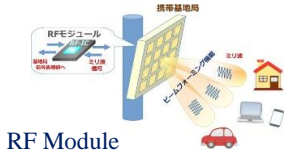


- ✓ The metabolism for our businesses requires health corporate growth
- ✓ Fujikura, which sustained growth over a long period in the past, is suffering an innovation dilemma.
- ✓ However, there is likely to be difficulties, such as with resources, when making a sudden departure from existing businesses and expanding into remote fields.
- ✓ To attain gradual growth of existing business fields, we need to learn about innovations, and take small, quick, repeated actions to learn from failures and integrate innovations that stem from this, with core businesses and technology. This is our vision for the new businesses we target.
- ✓ We have blue-chip customers. We are well-versed in creating strong bonds of trust. This is in our corporate DNA.
- ✓ We plan to use these strengths to achieve sustainable growth by enhancing customer-oriented value for (1) existing markets + new products and (2) existing products + new markets!



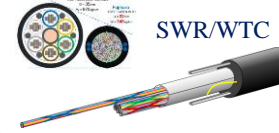
# Expansion of Business Opportunities Owing to the Arrival of 5G

## ★ Base station



## Mobile backhaul/front haul

## ★ Data Center



## Cabling solutions

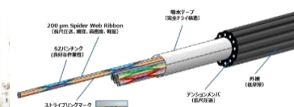


## Front haul/backhaul Metro

## ★ CASE

## ★ FTTx

## Air-Blown WTC



DC-DC Ultra multi-core SWR/WTC

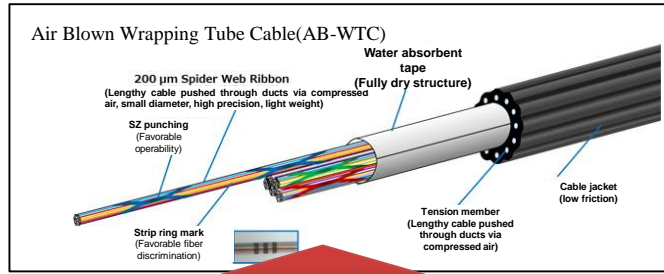
# SWR/WTC: Entry into Major Europe Carriers

Provide true value for potential needs by expanding value chain

## Customer-oriented value

(1)

Pursue easy use by making technological reforms



**Air Blown WTC**  
**Small / multi-core**  
**200μ fiber**  
**Optimal development of uses**



Initial design



Site surveying



Final design



Product development  
 Parts supply  
 Inventory management



Engineering  
 OSP construction  
 Construction inside building



Final test  
 As-built drawing



Construction to launch optic services  
 Maintenance

Expand value chain

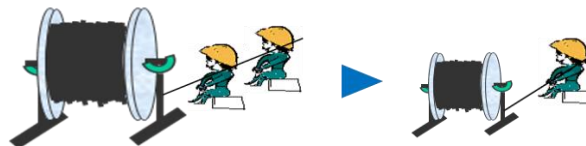
Expand value chain

## Customer-oriented value

(2)

Provide value in the upstream section of the value chain

Voice of customer: Aim to build network as soon as possible  
 Possible to connect as many households as possible



**Operability/shorter work period**  
**(Efficient/economical)**  
**Easy-to-implement construction**  
**for customer**

# Millimeter Wave: Expand Business Domain via Modularization

**Strengthen support for customers who are system device manufacturers from both side of the value chain**



## 5G technology

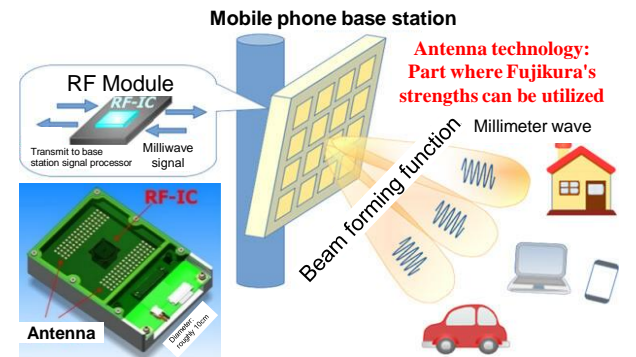
### 5G properties

\*vs. current technology

Max. transmission speed:	10Gbps	100x
No. of simultaneous connections:	1 million units/km <sup>2</sup>	100x
Latency speed:	1 millisecond	1/10

Radio waves have a short reach owing to use of high frequency band  
At present, diameter of 2-3km⇒about 100m (base station required)

- 5G network requires more high density mesh, increase in number of base stations
- RF module a key module for base stations



**Open innovation  
(Create high added value)**

### Supplement missing piece

RFIC technology, which is at the core, acquire 28GHz technology from IBM, Couple with 60GHz to expand scope of technology

- Expand scope of commercialization

- Strengthen support for wireless system device manufacturers (Joint development with major company)

- Conform to wireless last mile

# FPC Business Issues & Strategy

**Become well-versed in major customers, and full-fledged development of No. 2 pillar (automotive products)**

✓ **Slow down in smartphone market**

✓ **Customers become more heavily focused on pricing**

- **Further strengthen differentiation of technologies and quality**
  - Fully embark on yield improvement
  - Pursue operational excellence, introduction of IoT and AI
- **Launch full-fledged measures in automotive products field**
  - Start-up dedicated organization
  - Deploy resources to close-knit major companies

- **The smartphone market will remain our main market going forward. Our mission is to secure earnings in this main market.**
- **Focus on establishing strong trust with customers, differentiating technologies, and complex products that other companies are unable to engage in**
- **Fortify business in the automotive products fields through integration with the automotive business**

# Auto CASE & New Energy Vehicle (EV) Initiatives

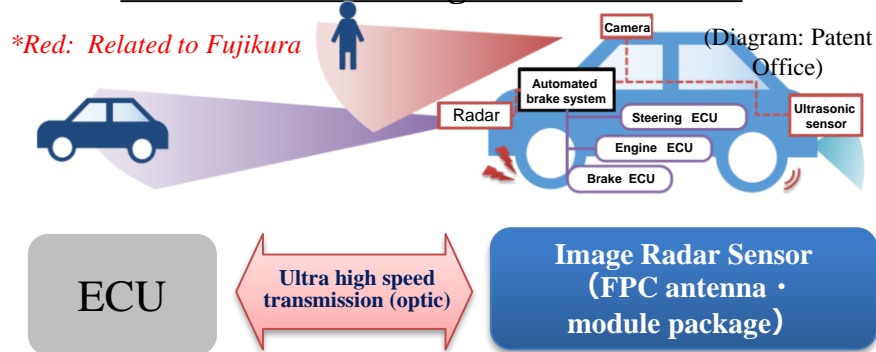
Achieve customer-oriented value by integrating owned technologies

## Autonomous

Issue:

- ✓ High-speed transport, high resolution image confirmation
- ✓ High speed, low delay transmission of a large-volume of information

### Autonomous driving sensor solutions



## Owned technology

Optic fiber communications

FPC technology (antenna, packaging)

Modularization technology

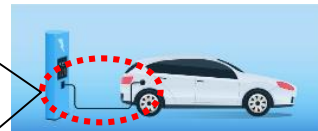
## Battery Charge

Issue:

- ✓ Takes a long time to charge
- ✓ Specs for each region



### ChaoJi (China-Japan join standard) Battery Charging Gun / Inlet development



Global share  
70%-80%  
(Japan-China combined specs)

Aim to standardize globally  
Next-gen, ultra high output, rapid charge specs  
900kw ultra high output

➤ Quantitative expansion owing to spread of EVs and standard specs

## Owned technology

Connector technology (auto body, charger)

Cable technology (Handle large currents, liquid cooling)

Heat control technology (heat emittance, cooling)

WH technology

# Medical Device Parts and Components Business

Expand horizon for core technologies focusing on  
miniaturization and imaging

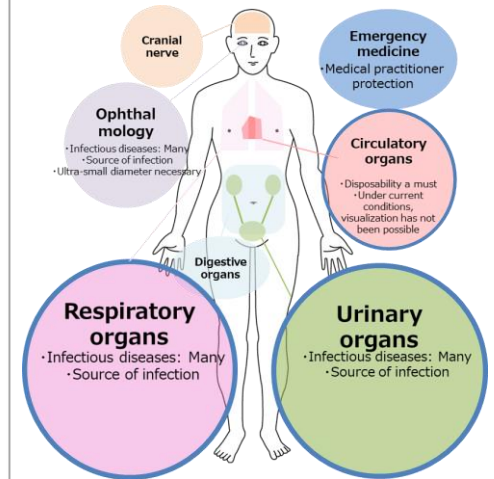
## CMOS camera module (for endoscopes)

Ultra-high-density packaging technology

Possess an integration of large-scale production technologies + medical device authentication

- Avoid risk of contracting a disease from infection  
⇒ Demand for **disposable product** (Medical site needs)
- Achieve low price with development of industrial technology  
⇒ Realize **disposable products**

Disposal endoscope: diagnostic field



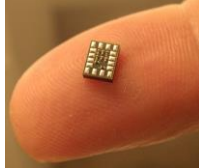
## Fujikura ultra-high-density packaging technology

★ CMOS camera module



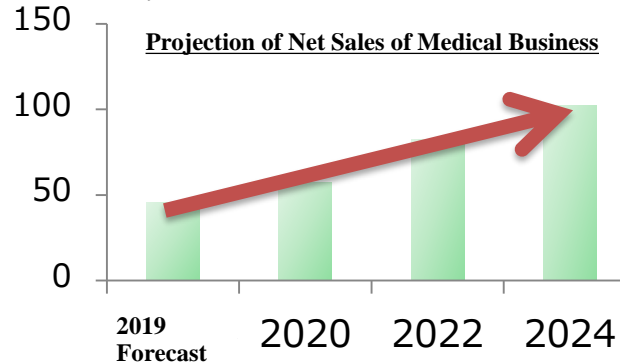
Use of disposal endoscope by major medical device manufacturers

★ WABE Package\*



Use by major overseas hearing-aid makers

Hundred million yen



Strengthen actions in the endoscope field, where there is a high demand for avoiding infection risk. Owing to this, we expect this will start to contribute to earnings in 2022.

\*Wafer And Board level device Embedded Package

# 3. Addressing Quality Issues

# Status of Safety Confirmation

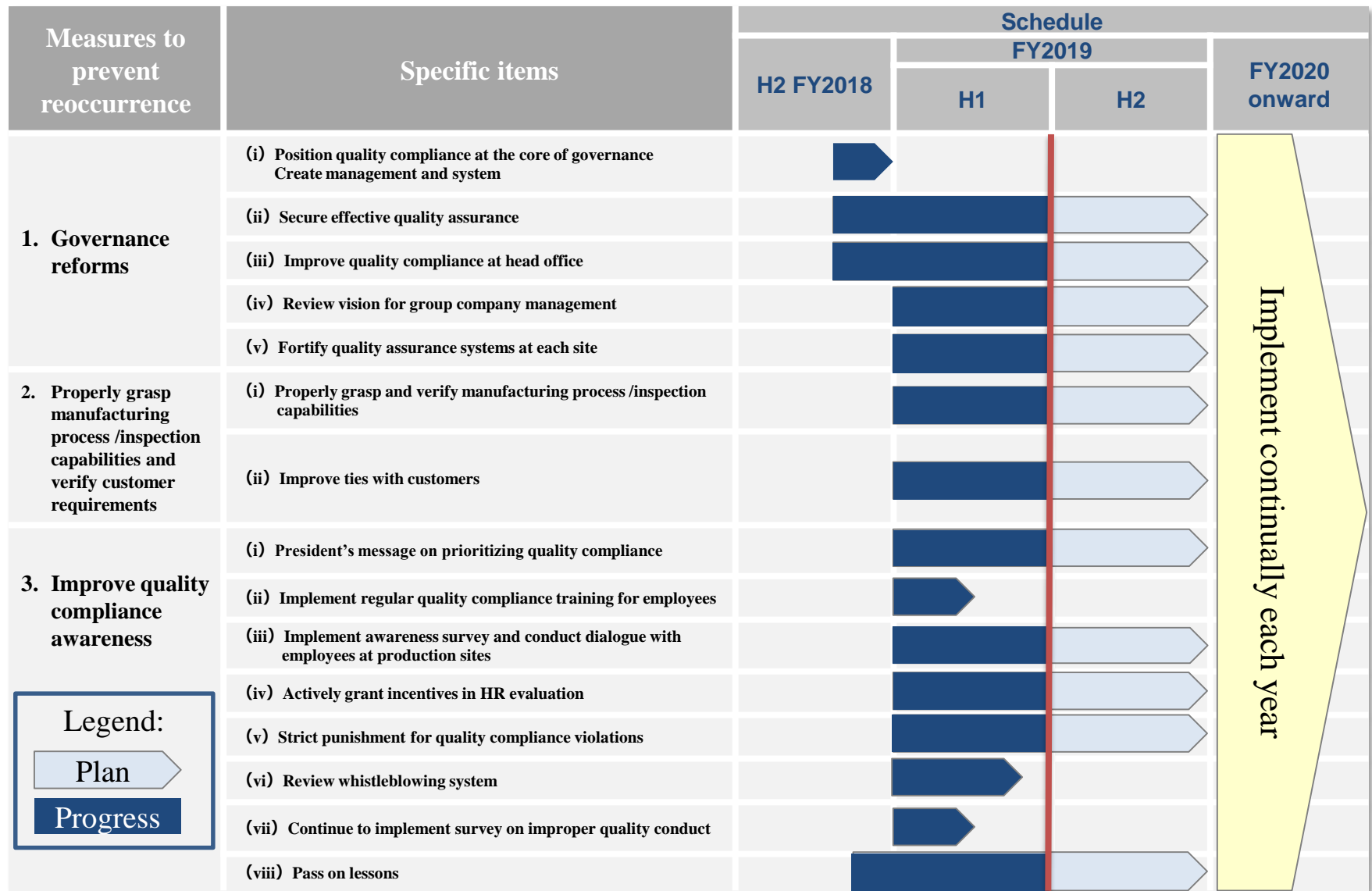
Red: as of October 31, 2019  
Black: Disclosed on April 25, 2019

A	B	C	No. of target customers
38 companies (cos.)→ <b>78 cos.</b>	35 cos.→ <b>21 cos.</b>	26 cos.→ <b>0 cos.</b>	<b>99 cos.</b>
38.4%→ <b>78.8%</b>	35.4%→ <b>21.2%</b>	26.3%→ <b>0%</b>	

- A) Customer confirmation of performance, health and safety of said products was completed.
- B) At present, confirmation by customers is underway for the performance, health and safety of said products but for the time being, we understand that there are no problems.
- C) Reporting to customers on delivery track record for said products has been completed.



# Implement Correction Measures, Including those to Prevent Reoccurrence



**Legend:**

Plan

Progress

## 4. ESG Initiatives

# ESG Initiatives & Evaluations

- Gain advanced knowledge to steadily implement sustainability measures

## Environment



- Partake in and endorse international environmental initiatives

**Contribute to the alleviation of climate change risk**

## Governance

- Increase number of outside directors and diversify the capabilities and experience we possess
- Revised organization

**Achieve outside director ratio of one-third of total Boardroom  
Strengthen governance with an organization under the direct supervision of the president**

## Third-party evaluations



FTSE4Good



FTSE Blossom  
Japan

**Selected three years in a row**

# 5. Shareholder Returns

# Shareholder Returns

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## ➤ Distribution of profits while keeping balance in mind

**Dividends:** Planning to declare an interim dividend of 5 yen per share and a year-end dividend of 5 yen per share, for total dividends of 10 yen per share for the full year

**Share buyback:** Acquirable number of shares (maximum) is 10 million shares

**Acquisition:** Acquisition amount (maximum) is ¥5.5 billion

**Dividends**

**Plan to pay a stable dividend by comprehensively taking factors into account  
Get a fresh start from levels at the time the Mid-term Business Plan was Launched in 2016**

**Share buyback**

**Start by buying back shares to mutually unwind cross-shareholdings**

# Remarks at the End

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I apologize to our stakeholders, including shareholders, for not securing earnings in all the businesses we have positioned as our three pillars despite having made rapid changes to our business locations.

Current social conditions are undergoing rapid changes. We once again strongly recognize that we must also change to survive.

Conditions and trends are likely to remain severe. However, as management, we aim to fortify measures so that we can steadily increase products that enhance customer-oriented value and ultimately lead to a recovery in earnings.

# Let's transform ourselves, and bridge to the future!

## 2020 Mid-term

Aim to become a high profit company

FY2020 Strategic Business Goals	
Profit Margin	7.0% or higher
Net Sales	900 billion yen
ROIC	10% or higher
ESG/Env	40/60

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



\*KAM: Key Account Management  
\*EDS: Electric Distribution System



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.