

# **FY2019 Financial Results**

**Current Crisis Response and Business Recovery**

**Fujikura Ltd.**

**Masahiko Ito, President & CEO**

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# 1. FY2019 Financial Results

## The difference between Forecasted and Financial Results (FY2019 )

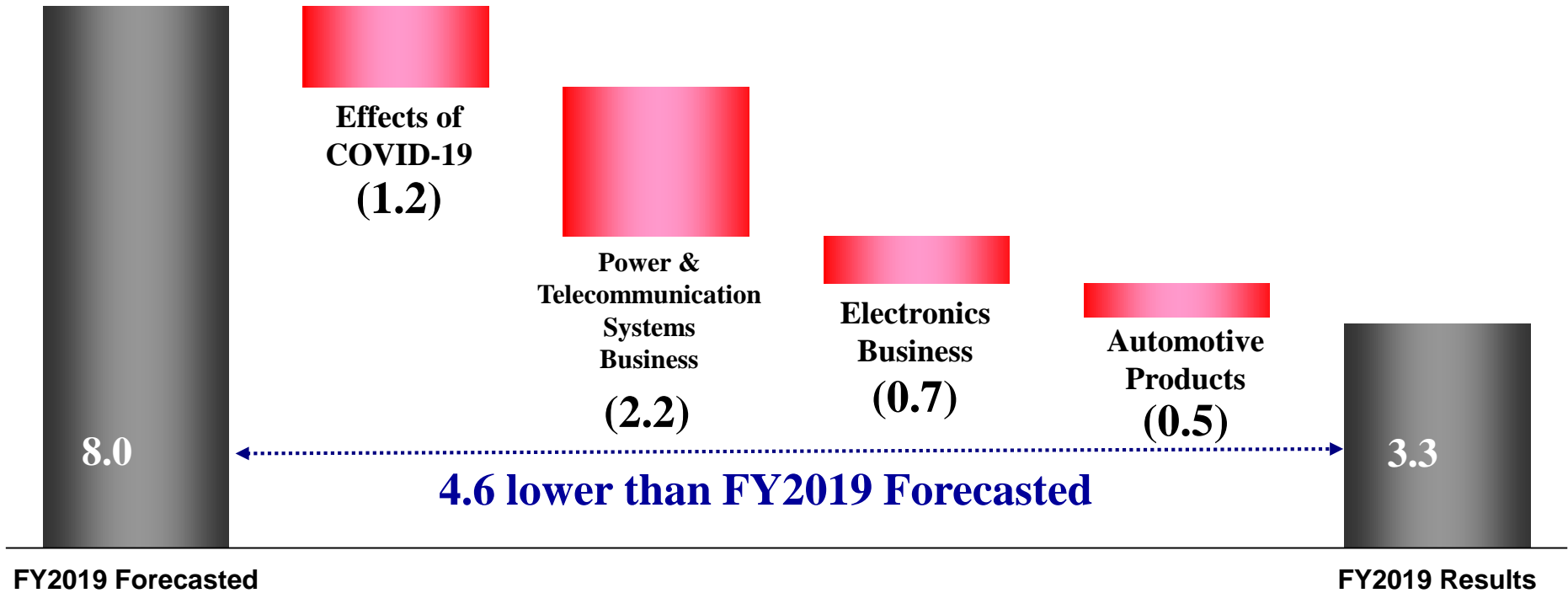
(Unit : Yen in billion)

	FY2019 (Forecasted on Feb.5)	FY2019	Forecasted-FY2019 Change
Net Sales	670.0	672.3	+2.3
Operating Income	8.0	3.3	(4.6)
Ratio of Operating Income to Net Sales(%)	1.2	0.5	(0.7)
Share of other comprehensive income of entities accounted for using equity method	1.4	1.1	(0.2)
Ordinary Income (Loss)	7.0	1.3	(5.6)
Net Income (Loss) Attributable to Owners of Parent	(7.5)	(38.5)	(31.0)
Net Income per Share (JPY)	(26.60)	(136.58)	(109.98)
Dividend per Share (JPY)	7.50	5.00	(2.50)
ROE (%)	(3.6)	(20.9)	(17.3)
Exchange Rate (USD/JPY)	—	108.72	—
CU Base ('000JPY/ton)	—	682	—

# FY2019 Contributing Factors to Operating Income Change (against Forecasted)

## Operating Income

(Unit : Yen in billion)



# Impact from the Novel Coronavirus

## Outlook for FY2020 & Beyond

- **The current situation is unprecedented. An enormous impact has already materialized and it is unclear how long the impact will continue and how large it will be.**
- **The sense of uncertainty over global economic activity due to the coronavirus pandemic is causing deterioration in business confidence and, along with this, concern over a decline in demand and chilling investment appetite. At present, it is difficult to predict when the spread of the pandemic will be brought under control.**
- **It is difficult to calculate a reasonable estimate of the impact on Group financial results, and we have decided not to provide forecasts for FY2020.**
- **The forecasts will be promptly disclosed once it becomes possible to calculate reasonable forecasts.**

- **We recognize the need to further minimize cash outflow and to take steps to reduce costs to mitigate the impact from the novel coronavirus.**
- **The entire Group will work as one team to respond to this unprecedented crisis.**

## **2. Current Mid-Term Business Plan**

# Current Mid-term Business Plan Policies & Goals

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- The following three points were raised as the basic policies of the 2020 Mid-Term Business Plan
  1. Place utmost importance on profitability to ensure sound growth.
  2. Build a company that creates value for customers by accelerating "metabolism"
  3. Establish corporate governance and enhance the company's reputation on environment and social aspects to secure sustainability.
  
- Pursuit of the following four key measures as the strategy was aimed at sound growth of existing businesses and accelerating the company's ability to metabolize change through new businesses.
  1. Developing deeper ties with strategic customers
  2. Speeding up new business creation
  3. Open innovation
  4. Management reform & business restructuring
  
- These measures were targeted at achieving an operating margin of 7% or higher and, as a result, net sales of ¥900 billion in FY2020.
  
- The 2020 Mid-term Business Plan (announced in May 2016) was a five-year fixed plan.



# Current Mid-Term Business Plan: Current Status and Issues

## Current Status

- We are unable to work for sound growth.
  - ✓ There have been drastic changes in the environment for the optical fiber and FPC businesses.
  - ✓ A rebound of the automotive products business has been delayed.
- The major impact from the novel coronavirus on our businesses was not foreseeable.
- It is certain that we will not achieve the company-wide numerical business goals for FY2020, the final year of the Mid-Term Business Plan.
- Progress on accelerating metabolism and new business creation has been disappointing.

## Issues

- Self-transformation has been insufficient and we need to take another look at our approach.
  - ✓ This resulted in an emphasis on net sales and a focus on market share.
  - ✓ The strategy and key measures could not respond to the dramatic changes in the external environment.
- Continuing with the current plan is certain to lead to further deterioration in the profit structure.



**We are abandoning the current Mid-Term Business Plan mid-course.**

# **3. Targeting Management Innovation**

## **—Moving to the Operational Turnaround Stage**

# Acknowledging Current Conditions & the Need for an Operational Turnaround

## Acknowledging Current Conditions

- **The inability to respond to the dramatic changes in the market environment and increasingly severe competitive environment caused profitability for the entire company to decline and we were unable to realize corporate value that could meet market expectations.**
  - ✓ **Our three main businesses\* faced fundamental problems that we were unable to resolve.**



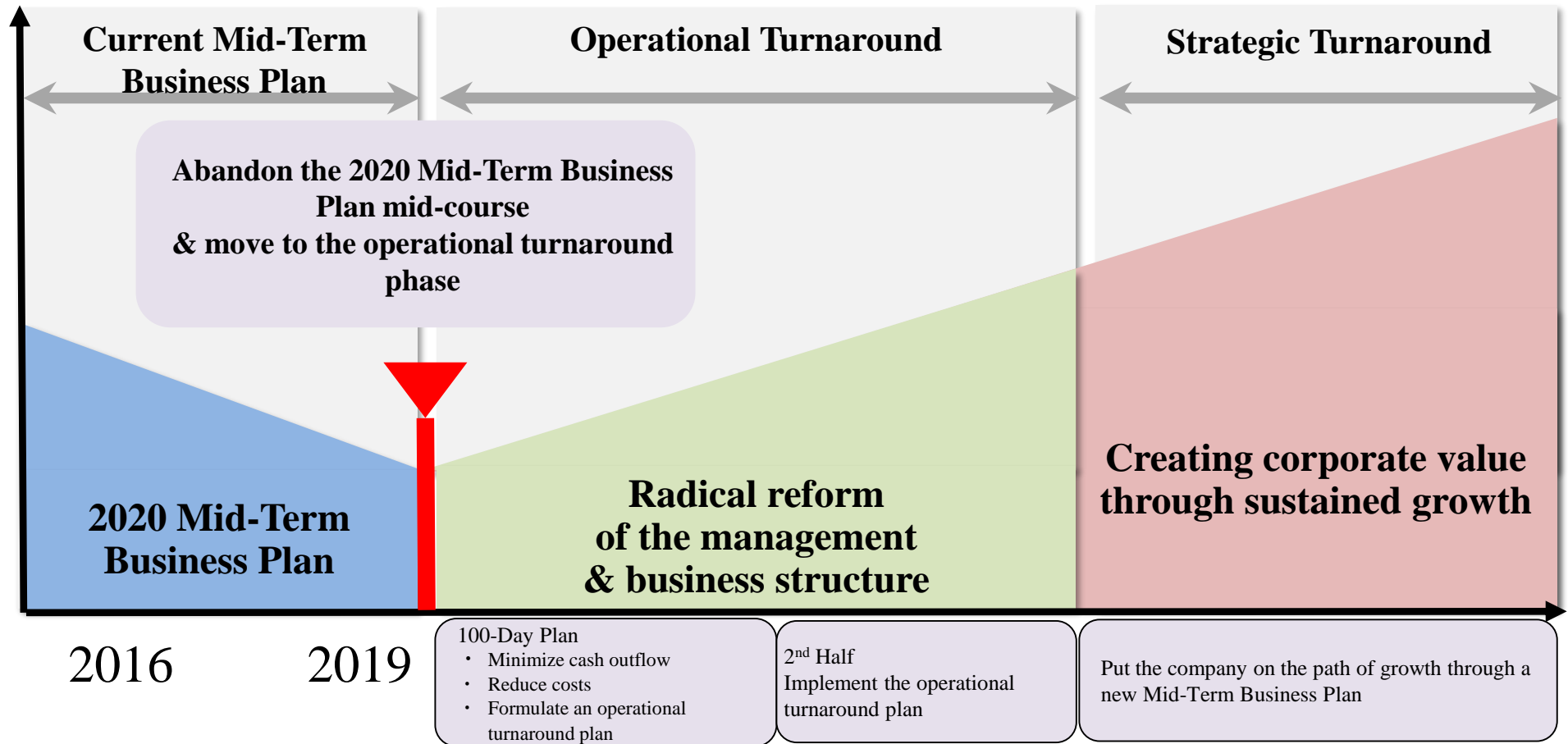
- **Insufficient self-transformation has made further deterioration of the profit structure unavoidable.**
- **Radical reforms that extend to the management and business structures are necessary for operational turnaround and reforms cannot be pushed off into the future.**

## Future Policies

- **Execution of the current Mid-Term Business Plan has been abandoned and we are moving to the operational turnaround phase.**
- **We will take decisive action to implement proactive structural reform of the entire Group while we can still rebuild our financial base, with the goal of making the company sustainable far into future.**
- **We will successfully turn our business around, radically improve profitability and the management and business structure, and enhance corporate value.**

\* Three main businesses: Telecommunication Systems, FPC, and Automotive Products

# Abandoning the Mid-Term Business Plan and Moving to the Operational Turnaround Phase



- We will establish an operational turnaround period, albeit a short one to normalize operations ⇒ then disclose the operational turnaround plan and policies in the 2<sup>nd</sup> half of FY2020.
- The new Mid-Term Business Plan incorporating our post-coronavirus growth strategy will be disclosed and implemented after we have successfully turned operations around (strategic turnaround).

# Objective of and Basic Policies Aimed at a Successful Business Turnaround

## Objective

**Improve the structure with an awareness of corporate value in the Group as a whole.  
Take on the challenge of decisively strengthening earning power once again.**

## Basic Policies

**Engage in strict selection and concentration to improve and increase profitability.**

**Optimize the sales, manufacturing, and development structure worldwide.**

**Slim down head office functions while turning operations around.**

**Accelerate management with an awareness of capital efficiency by managing through a process of strict selection and concentration through ROIC management.**

**Simultaneously strengthen the governance system further to achieve discipline and transparency in the entire Group.**

**The highest priority is to achieve an operational turnaround and structural reform in the telecommunication systems and FPC businesses where changes in the external environment are especially dramatic.**

## Telecommunications Business: Acknowledging Current Conditions & Operational Turnaround Policies

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### Acknowledging Current Conditions

- Strong emphasis on volume growth in optical fiber
- Dependent on market volume, mainly in China
- Recognize impairment loss of both optical fiber and fiber laser businesses (FY2019).

### Operational Turnaround Policies

- Stop the bleeding rapidly by revising the manufacturing and sales strategy for optical fiber motherboards and cables.
  - ✓ Position the company according to our capabilities.
  - ✓ Substantially shrink the sale of individual preforms and optical fiber, and concentrate on profitability through an even greater strategic shift aimed at strengthening high value-added optical cable.
- Revise the vision for the fiber laser business.
- Take decisive action to reduce fixed costs by allocating the appropriate number of personnel, at overseas locations as well.
- Switch to the optical cable solution business and rapidly put the optical cable business, including the optical fiber business, on a path of growth.

## Electronics Business: Acknowledging Current Conditions & Operational Turnaround Policies

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### Acknowledging Current Conditions

- **The increasingly severe competitive environment caused by the leveling off of smartphone demand among main customers and the failure to implement flexible, agile measures to respond to the changing competitive environment were the main factors behind the deterioration in profitability.**

### Operational Turnaround Policies

- **Scale to the appropriate size and stop the bleeding.**
  - ✓ **Consolidate and eliminate locations and position the company according to its capacity.**
  - ✓ **Revise the order strategy.**
- **Minimize inventory risk.**
- **Take decisive action to reduce fixed costs by allocating the appropriate number of personnel, at overseas locations as well.**
- **Quickly bring the FPC business back into the black.**

# Wire Harness & Power Systems Business, Company-wide: Operational Turnaround Policies

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## Wire Harness Business

- Reform management in Europe.
- Continue to pursue the transfer of production locations from Eastern Europe to Morocco.
- Recognize an impairment loss on equipment (FY2019).
- Make a dedicated effort to reduce fixed costs.

## Power Systems Business

- Position existing domestic power systems business as non-core business for the company.
  - ✓ Urgently pursue selection and concentration of business and create a roadmap to achieve structural reform over the next year.
- Exit the overseas EPC business.

## Company-wide Issues

- Also slim down the number of head office personnel as part of structural reform.
  - ✓ Reach the appropriate number of personnel in head office divisions and elsewhere and reduce fixed costs through personnel reductions.
- However, we believe that quality is corporate value itself, so make sure not to sacrifice quality for profit.



# New Businesses and R&D

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## Acknowledging Current Conditions

- **Progress on accelerating our reinvention creating new businesses has continued to be disappointing in recent years.**
- **Circumstances make it difficult to predict the post coronavirus economic environment and growth strategy, and this has increased the importance of reinvention and new business creation.**

## Policies

- **As a development-based company, we cannot afford to halt our journey toward development of products and technologies that will be the pillars supporting the next generation to secure sustained profitability in the future.**
- **Engage in strict selection and concentration of promising areas where we can utilize our core businesses and technologies.**
- **Continue to create new businesses and develop new products in the areas of Advanced Communication, Energy & Industry, Life Assistance, and Vehicle while discerning market needs and trends in demand.**

# Governance

## Acknowledging Current Conditions

- **The issues clearly stood out after changing the organizational design.**
  - ✓ **The risk management structure and operation need to be improved.**
- **We are making progress on strengthening the management function for operational execution but recognize that we are only halfway there.**

## Policies

- **Establish the Management Innovation Committee.**
  - ✓ **Strengthen company-wide cross-organizational functions.**
  - ✓ **Exercise strict management by KPI.**
  - ⇒ **Strongly promote measures to reduce costs and improve profitability.**
- **Strengthen Board of Directors function.**
  - ✓ **Engage in thorough debates that will contribute to the growth strategy.**
  - ✓ **Strengthen the function of oversight over management.**
  - ⇒ **Further strengthen corporate governance and link this to sustained growth.**

### Key theme:

**“Stronger governance that contributes to strict risk management”  
Work to build a more effective governance system.**

# Impacts of the Business Turnaround Phase

## Extraordinary Expenses

- **FY2019: ¥20 billion**  
\* mainly from an impairment loss
- **FY2020: The specific expenses will be explained when the business turnaround plan is disclosed.**

## Benefits from Reducing Fixed Costs

- **Benefit from impairment loss, etc. at the end of FY2019: ¥7 billion**
- **The quantitative benefit in FY2020 will be explained when the business turnaround plan is disclosed. Fixed costs will be cut by 20%, with nothing off limits.**
- **The plans for reducing personnel to the appropriate number are currently being formulated.**

# Response on the Financial Front

## Response

- **The business turnaround phase will be implemented while suffering the impacts from the spread of the novel coronavirus.**
  - ✓ **Shrink inventories.**
  - ✓ **Refrain from capital investments.**
  - ✓ **Sell cross-shareholdings and other assets.**
  - ✓ **Reduce expenses.**
  - ✓ **Financing: Establish a commitment line.**

- **We expect operating cash flow to deteriorate and will generate cash by reducing cash outlays for investment and shrinking/selling assets.**
- **We will ensure sufficient cash liquidity by establishing a commitment line, and through other means.**

# Profit Return

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- **Business turnaround phase: Implement structural reform and turn the business around.**  
⇒ **Normalize the earning power of main businesses.**

**We want recovery of equity to be the highest priority in turning around the business.**

- **Next Mid-Term Business Plan:**  
**Formulate and implement a new growth strategy.**  
⇒ **Expand profits and put the company back on the path of growth.**

**We wish to announce our shareholder return policy as a sustainable company together with the next Mid-Term Business Plan.**

**We will work to achieve a successful business turnaround and structural reform and aim to restore dividends quickly.**

# Management Responsibilities

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**Clarify management responsibilities for implementing structural reform and achieving a business turnaround.**

- **Internal directors and executive officers will give up part of their compensation.**

**We want to fulfill our management responsibilities by successfully completing reform.**

# Our Commitment as Management

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**With unwavering determination, we will take decisive action  
to implement company-wide structural reform  
and turn the business around  
to transform Fujikura into a company  
that can generate high corporate value.**

**Portfolio management  
through a process of strict  
selection and  
concentration**

**Promoting ROIC  
management**

**Strengthening the  
governance system**

# Supplementary Materials



# Novel Coronavirus Response (1)

- Situation

- ✓ It has had a severe impact on economy activities worldwide.
- ✓ We need to keep a close eye on the risk of further downswings in the Japanese economy and overseas economies.
- ✓ The Japanese Government extended the Declaration of a State of Emergency for more than one month to prevent the spread of the virus (rescinded on May 25).
- ✓ Voluntary restraints on movement across prefectural borders and restrictions on economic activities continue even after the State of Emergency was rescinded.

- Fujikura's Response

1. Action

- ✓ Set up a novel coronavirus (COVID-19) task force on measures to prevent the spread of infections

2. Risk Mitigation Measures

- ✓ Recommending telecommuting, staggered work hours, Web and phone conferencing, and voluntarily refraining from business trips
- ✓ Maintaining social distancing during meetings
- ✓ Telecommuting as a general rule for locations in prefectures subject to special precautions

As we work to prevent the more people from being infected with the novel coronavirus to ensure the health and safety of all stakeholders, we will also work to continue or resume production to fulfill our responsibility to supply products to customers, while placing highest priority on ensuring the safety of Fujikura Group employees and their families.

# Novel Coronavirus Response (2)

## • Impact on Demand

- ✓ Power & Telecommunication Systems: At present, we have not seen any significant impact on social infrastructure.
- ✓ Electronics: While we have seen a trend of ordering in advance for an extremely limited number of products due to preparation for staying at home and the threat of a second wave of the novel coronavirus, we anticipate a decline in consumer spending.
- ✓ Automotive Products: We anticipate a substantial impact due to the decline in plant operating rates of automotive manufacturers.

While there is a risk that the impact from the novel coronavirus will cause a deterioration in business confidence and, along with this, concern over a decline in demand and weakening investment appetite, we cannot predict the future at present.

## • Impact on Production

### 1. Location of plants where operations have been temporarily suspended

Paraguay

Mexico

Operations temporarily suspended to align with the operations of customers to whom products are delivered.

### 2. Location of plants that have already resumed production

Romania

Moldova

Ukraine

Morocco

China

Some plants have resumed operations from late April through early May.

Operations have gradually resumed since February 10. Plants have now resumed normal operation.

The novel coronavirus has had an impact on production due to governmental restrictions and/or the suspension of operations by companies in the North & South American bloc and the European bloc of the Automotive Products business. Other businesses are generally operating normally.

# Overview of Plant Fire

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- Plant where the fire occurred

- ✓ Name: Fujikura Automotive Morocco Tangier, S.A.S.
- ✓ Location: Near the materials warehouse at Tangier Plant 1, Tangier, Morocco

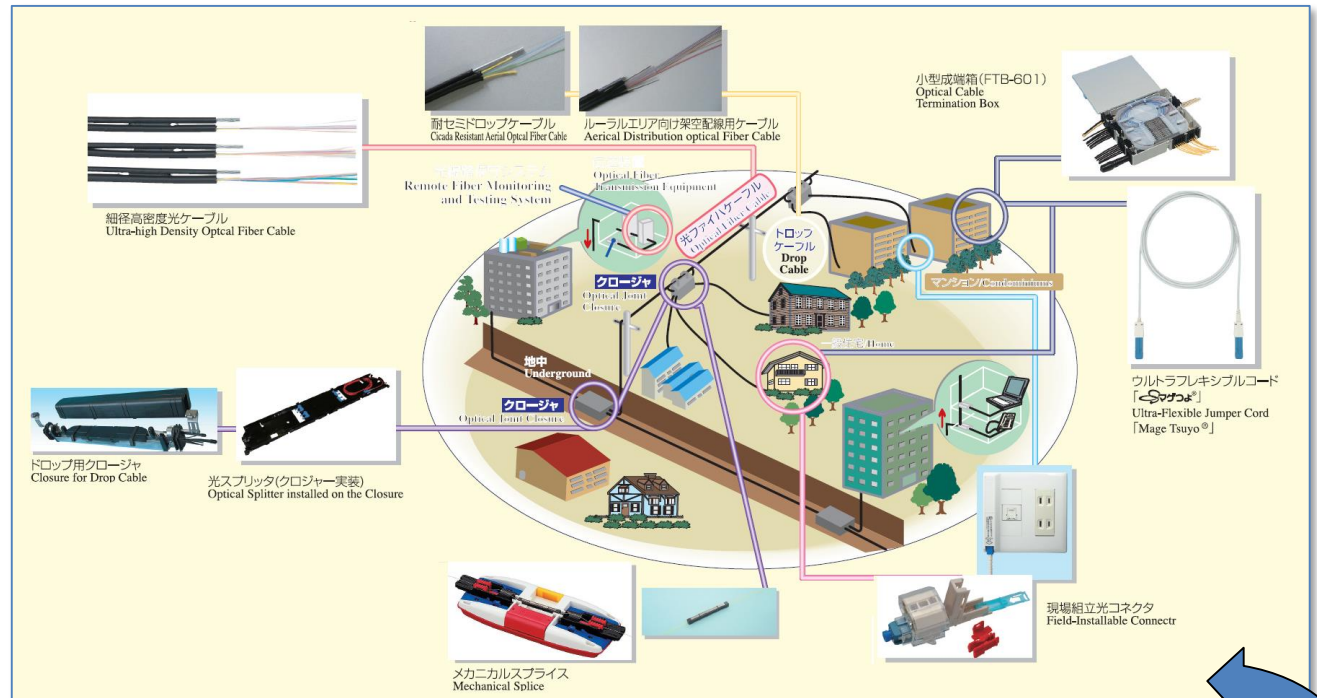
- Description of fire

- ✓ Date/time: Around 5:15 p.m. on May 30, 2020 (local time); the fire was extinguished around 1:00 a.m. on May 31.
- ✓ Damage: Roughly half of the plant building area (approx. 4,000 m<sup>2</sup>) was completely destroyed.
- ✓ Financial impact: Currently being investigated. We will promptly disclose the information if a serious impact is anticipated.

**A Group crisis response task force (headed by the president) was established and is working to determine the cause, formulate measures to prevent recurrence, and recover quickly.**

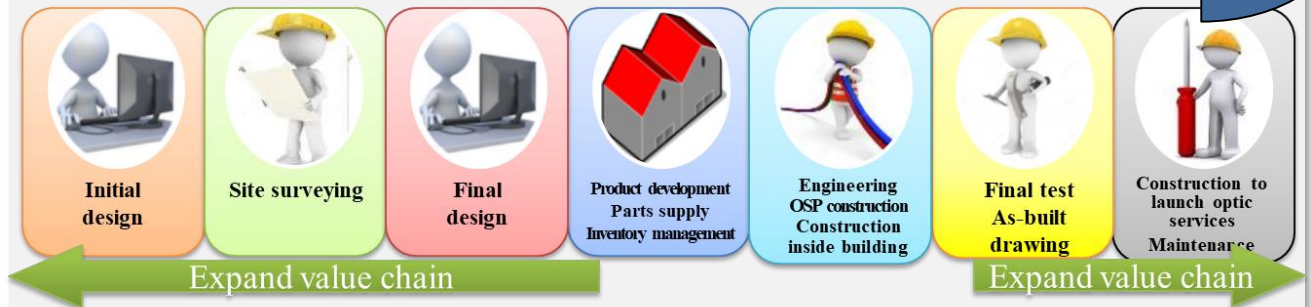
# Telecommunication Systems: Switch to SWR Cable Solution Business

Fiber  
 —Cable  
 —Connections  
 (Fusion splicers, connectors)  
 —Peripheral components  
 (Optical joint closure, cabinets)  
 —Installation  
 End-to-End  
 SWR solutions



**Global & One-stop = Create a business model of being the only one**

Create new customer value  
 based on knowledge of  
 construction





Disclaimer: These materials contain Fujikura's management policy (intentions) for FY2020. Statements about sales, profits, and other forward-looking statements about FY2020 and future fiscal years are based on a market decisions made according to the latest information available at the time. Fujikura's intentions in regard to investments have been quantified, but may change at some point in the future due to changes in the business environment or other factors.