

May 8, 2020

Furukawa co., Ltd.  
(Securities Code: 5715; TSE First section)

## **Postponement of “Medium-Term Business Plan 2022” Announcement and Formulation of “Medium-Term Business Policy 2022”**

At its meeting held on May 8, 2020, the Board of Directors decided to postpone the announcement of Medium-Term Business Plan 2022. (The theme of this plan, which covers the period from April 2020 to March 2023, is to “Expedite growth and further improve profitability.” It is positioned as Phase 2 of the Furukawa Company Group’s Vision for 2025, called FURUKAWA Power & Passion 150.) At the same meeting, the Board announced Medium-Term Business Policy 2022, which is described below.

### **1. Postponement of Medium-Term Business Plan 2022 announcement and future outlook**

The Furukawa Company Group has decided to postpone the announcement of Medium-Term Business Plan 2022 in consideration of a dramatically changing operating environment and business conditions that form assumptions for formulating the plan. These include an uncertain economic outlook, the global COVID-19 pandemic, and emergency declarations issued by the government. We will announce the new plan as soon as it can be formulated.

### **2. Formulation of Medium-Term Business Policy 2022**

Despite the aforementioned decision to postpone the announcement of Medium-Term Business Plan 2022, we have formulated Medium-Term Business Policy 2022 in order to clarify management strategies, priority issues, and other matters that need to be addressed in Phase 2 of Vision for 2025.

Please see the following pages for details.

## Medium-Term Business Policy 2022: Expedite growth and further improve profitability

### 1. Review of Medium-Term Business Plan 2019

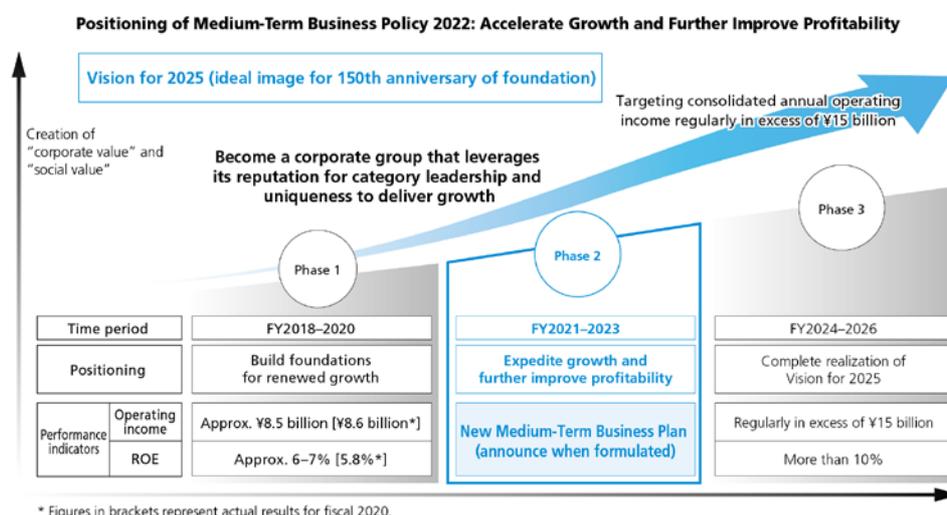
Medium-Term Business Plan 2019 was positioned as Phase 1 of Vision for 2025 (FURUKAWA Power & Passion 150). Our consolidated performance targets under the plan were operating income in the ¥8.5 billion range and ROE in the 6–7% range. We achieved the operating income target in two consecutive years: ¥8.9 billion in fiscal 2019 and ¥8.6 billion in fiscal 2020 (as announced in financial results briefings). Despite concerted Groupwide efforts, however, we were unable to reach the ROE target in the Phase 1 period, resulting in ROE of 5.8% in fiscal 2020.

Under Vision for 2025, we are building a solid income base that is not overly influenced by the performance of the Metals Division. We are also working to “Sustainably expand the Machinery business”—one of the stated policies of Vision for 2025—with the aim of transforming ourselves into a “New Furukawa Company Group.” In Medium-Term Business Plan 2019 (Phase 1), moreover, we drastically changed our operations and positioned the Machinery business as our core business.

As a result, although our performances differed according to business segment, we achieved our consolidated operating income target set under Medium-Term Business Plan 2019. This was driven mainly by the Machinery business, positioned as our core business. We also began to see our business portfolio evolve in a positive direction and entered into a transitional period of business restructuring.

### 2. Positioning of Medium-Term Business Policy 2022

Phase 1 of Vision for 2025 was positioned as a period of “Building foundations for renewed growth.” Under Medium-Term Business Policy 2022, which covers Phase 2 (April 2020 to March 2023), we will make all-out efforts to solidify the foundations built in Phase 1, in order to “Expedite growth and further improve profitability.” In the Rock Drill Machinery segment, we will strengthen and rebuild our overseas marketing capabilities, which is an important and urgent priority. We will also focus on building business models using Life Cycle Support (LCS)<sup>\*1</sup> approaches. In the Industrial Machinery segment, meanwhile, we will continue pursuing innovations aimed at revolutionizing our income structure with the aim of transitioning from a standalone machinery manufacturer. And in the UNIC Machinery segment, we will steadily enhance our overseas product, sales, and service technology capabilities.



### 3. Management policy

#### (1) Companywide strategy

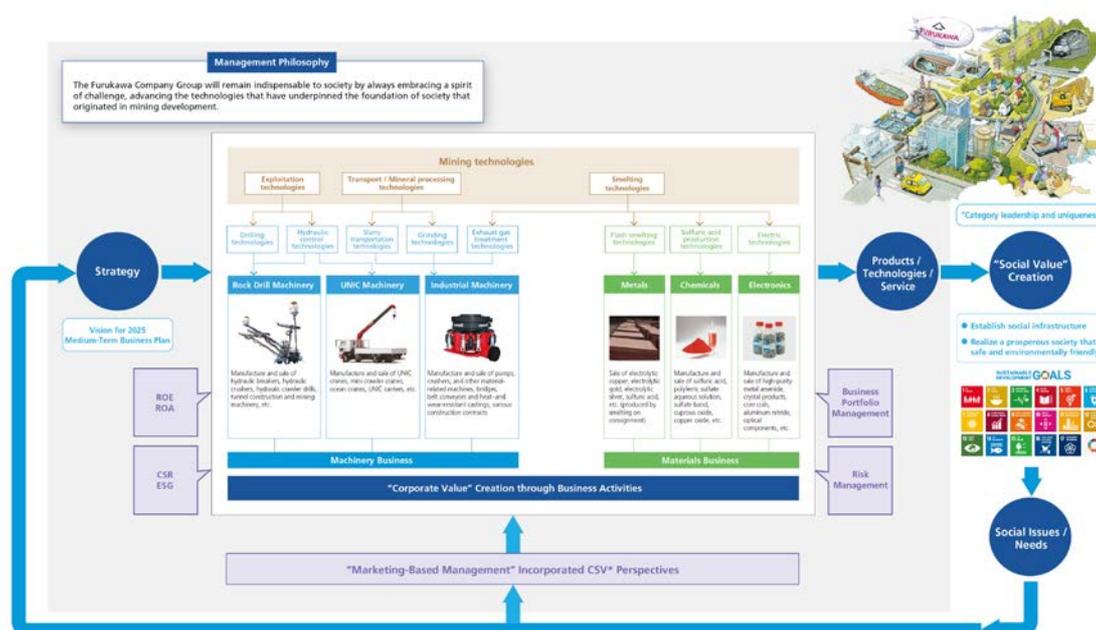
Under Medium-Term Management Policy 2022, with the aim of realizing Vision for 2025, we will work to increase the value of the Furukawa brand by advancing marketing-based management\*<sup>2</sup>, which has been redefined to incorporate CSV\*<sup>3</sup> perspectives. We will also strengthen our ability to find and solve problems in the field and our ability to produce innovation\*<sup>4</sup>. Targeting sustained growth, meanwhile, we will “Strengthen and expand our human resource base,” “Actively promote investments to increase corporate value,” and “Establish a robust corporate foundation.” Under Medium-Term Business Plan 2019 (Phase 1), we built foundations for renewed growth. By making all-out efforts to solidify these foundations, we will work to “Expedite growth and further improve profitability.”

In particular, we will continue striving to “Sustainably expand the Machinery business”—positioned as a core business under Medium-Term Business Plan 2019 (Phase 1)—in order to clearly identify priority investments and growth businesses. We will also step up alliances and M&As to achieve discontinuous growth.

In addition, we will work diligently to “Increase corporate value by emphasizing business practices that reflect CSR/ESG issues recognized and to be solved by the Group.”

#### (2) Increase the value of the Furukawa brand through “marketing-based management” that incorporates CSV perspectives

We will generate corporate value by providing infrastructure, products, technologies, and services that help solve social issues. At the same time, we will continue striving to create social value building social infrastructure and realizing a safe, environmentally friendly, and prosperous society.



### ***(3) Basic strategies and priority issues by segment***

#### **1. Machinery business**

##### **【Industrial Machinery】**

###### *Basic strategy*

- We will continue our strategy of “Increasing our involvement in section plant<sup>\*5</sup> construction projects and expanding our contractor business<sup>\*6</sup>, including large-scale projects for both the public and private sectors, in order to transition from a standalone machinery manufacturer, strengthen our engineering capabilities<sup>\*7</sup>, and enhance our business foundation in the domestic market,” and thus establish a solid growth trajectory.

###### *Priority issues*

- Attract new orders by providing technical proposals for section plant construction projects and other projects
- Cultivate demand for SICON® enclosed hanging conveyors
- Strengthen earnings foundation by capturing replacement demand for pumps and material machinery

##### **【Rock Drill Machinery】**

###### *Basic strategy*

- Strengthen our Life Cycle Support (LCS) capabilities, reinforce our earnings foundation for drill products (blast hole drills<sup>\*8</sup> and drill jumbos), tap new markets, and launch new products to increase profits

###### *Priority issues*

- Strengthen and rebuild overseas marketing capabilities
- Reinforce overseas business foundation for blast hole drills
- Create overseas business foundation for drill jumbos
- Build business models using Life Cycle Support (LCS); strengthen stock business<sup>\*9</sup> by providing various services that benefit customers’ businesses (extended warranty, full maintenance, proposals for using ICT-based operation support systems to enhance work efficiency, etc.)
- Further enhance lineup of products that contribute to safety and efficiency at tunnel excavation sites, such as fully automatic drill jumbos and automatic rock bolters

##### **【UNIC Machinery】**

###### *Basic strategy*

- Secure stable income from domestic sales and expand income from overseas sales, by promoting advanced functions and higher added value in order to strengthen our competitiveness; advancing the stock business; and reinforcing our overseas product, sales, service, and technological capabilities

###### *Priority issues*

- Reap benefits from capital investment in Sakura Works and promote further automation

- Strengthen competitiveness by increasing functionality and higher added value of UNIC cranes, mini crawler cranes, and UNIC carriers; develop new functions and options meet diversifying applications
- Expand overseas sales network and enhance sales capabilities of dealers
- Reinforce our service system

## 2. Materials business

### 【Metals】

#### *Basic strategy*

- Conduct drastic review of contracted smelting and refining business

#### *Priority issues*

- Identify profitability and future potential of contracted copper smelting business

### 【Electronics】

#### *Basic strategy*

- Promote growth of strategic products and launch new strategic products

#### *Priority issues*

- Aluminum nitride: Utilize high-value-added firing technology to expand business; develop products with high levels of thermal conductivity and toughness
- Diffractive optical elements (DOEs): Utilize microfabrication technology to increase applications to sensors (in addition to laser processing) in order to expand sales channels
- Hybrid coils: Provide product samples in order to emphasize high design flexibility

### 【Chemicals】

#### *Basic strategy*

- Expand income from existing products and start commercializing and fostering newly developed products

#### *Priority issues*

- Existing products
- Sulfuric acid: Strengthen differentiation by emphasizing high-quality sulfuric acid products
- Newly developed products
- Metallic copper powder: Enhance product quality, establish mass production and sales systems, and expand sales channels by providing product samples

## 3. Real Estate

#### *Basic strategy*

- Secure stable income from Muromachi Furukawa Mitsui Building and effectively utilize Furukawa Osaka Building and other real estate owned by the Group

*Priority issues*

- Decide future plans for Furukawa Osaka Building

***(4) Product development system***

*Basic strategy*

- Turn development themes into products and businesses that directly contribute to Group operating companies; activate capabilities to find and solve problems in the field in order to improve productivity, which is essential for manufacturers

*Priority issues*

- Commercialize products under development, such as fully automatic drill jumbos
- Promote development of solid electrolyte materials and mass production technology for all-solid-state batteries
- Strengthen training of engineers to lead the next generation through full-scale deployment of engineer development program
- Reduce environmental impact during mechanical system product development: Convert power load reduction (achieved through weight reduction and efficiency improvement) into CO<sub>2</sub> reduction equivalent; set reduction targets for each main product; follow up using PDCA cycle

***(5) Strengthen and expand our human resource base***

*Basic strategy*

- Build a motivating company that encourages individual employees to maximize their abilities and create new value

*Priority issues*

- Develop human resources
- Undertake drastic review of education system
- Promote Health and Productivity Management
- Reduce total working hours per year, promote diverse workstyles, and improve health examination/re-examination rates
- Promote diversity
- Promote employment of female planning staff and people with disabilities, and actively hire foreign employees
- Improve working environments
- Review and maintain working environments that can address emergencies; strongly promote operational reforms

***(6) Actively promote investments to increase corporate value***

**1. Capital investment plan<sup>\*10</sup> to support stronger manufacturing capabilities**

- We will make capital investments mainly in the Machinery business (positioned as our core business)

**2. Alliances and M&A**

- We will consider and enter alliances and M&A with peripheral companies that fill the gaps and create continuity in our existing Machinery business, as well as with companies engaged in the fourth pillar of our Machinery business.

### ***(7) Establish a robust corporate foundation***

#### **1. Strengthen efforts to increase ROE**

We will make individual investment decisions while paying attention to profitability and taking into account risks and capital costs associated with each investment. We will also step up efforts to improve efficiency and profitability.

At the same time, we will pursue overall optimization of business resource allocations and improve corporate value by incorporating cost of capital in our business portfolio management.

#### **2. Capital strategies: Pursue optimal capital structure based on rating strategy<sup>\*11</sup>**

[Allocation of operating cash flows]

We will “actively promote investments that contribute to increased corporate value” while aiming to establish a robust financial foundation. At the same time, we will endeavor to make optimal allocations of cash flows in consideration of shareholder returns.

[Dividends]

Our policy is to return profits to shareholders in the form of dividends appropriated from retained earnings. Specific dividend amounts are based on consolidated profits/losses. With the exception of special profit/loss circumstances, we endeavor in principle to pay annual cash dividends of ¥50.00 per share with a consolidated payout ratio<sup>\*12</sup> of 30% or higher. In this way, we strive for stable, continuous shareholder returns.

[Treasury stock purchase and cancellation]

With respect to purchase and cancellation of treasury stock, our policy is to properly consider all relevant factors, including share price movements, capital efficiency, and cash flows.

#### **3. Increase corporate value by emphasizing business practices that reflect CSR/ESG issues recognized and to be solved by the Group**

We will formulate medium-term CSR targets (fiscal 2021 to 2023) and develop a PDCA cycle of planning, execution, evaluation and improvement.

### **Notes**

\*1 Life Cycle Support (LCS): This means providing support through optimal management services aimed at reducing machine ownership and operating costs as much as possible throughout the machine’s entire life cycle (selection and delivery, operation and maintenance, large-scale repairs and reconditioning, and disposal and replacement).

\*2 Marketing-based management incorporating CSV: This means incorporating marketing into the core of management to provide products and services recognized as valuable in changing markets, as well as to resolve issues and problems faced by customers, with the aims of increasing corporate value and achieving sustained growth. It also reflects the Group's intention to achieve the Sustainable Development Goals (SDGs) and otherwise resolve various social issues, including such domestic issues as building national resilience and the declining working-age population, and thus help realize a sustainable society.

\*3 Creating shared value (CSV): This is a management framework that enables companies to co-create social value and corporate value by tackling social, environmental, and other issues.

\*4 Ability to produce innovation: We define innovation in a broad sense as the ability to deliver reforms and improvements that generate corporate value and social value across all corporate activities, as well as the ability to build and reform business models.

\*5 Section plant: Part of the processing process of a whole facility (plant).

\*6 Contractor business: Civil engineering and construction-related businesses that handle construction, operational management, and the like, by agreements and other contracts.

\*7 Engineering capabilities: The ability, as part of the sales process, to use experience, technology, and knowledge as tools in order to make optimal proposals to customers based on consideration of a comprehensive balance of all factors, including functions, costs, operating environment, and safety.

\*8 Blast hole drill: A machine that drills holes for blasting purposes and is used for relatively large-scale blasting, such as mining, stone crushing, civil engineering work, and the like. We use "blast hole drill" as a general term for crawler drills, down-the-hole drills, and rotary drills used on the earth's surface.

\*9 Stock business: Business targeting the after-sales market (including maintenance parts sales, maintenance services, and trade-in/sale of used equipment), as well as rental services. We will continuously expand and strengthen our stock business, which generates relatively stable income, in contrast with our flow business (product sales), which is easily impacted by economic factors.

\*10 Capital investment plan: In the Rock Drill Machinery segment, in October 2017 we started a five-year capital investment plan aimed at increasing the production capacity of the Takasaki Works and other facilities. Although we completed the first stage of this plan, we decided to postpone and reassess capital investment from the second stage in light of this segment's business performance and other factors.

\*11 Rating strategy: By fiscal 2026 (ending March 2026), the final year of Vision for 2025, we aspire to achieve a financial soundness vision that will enable us to obtain a credit rating of BBB+ (or higher), which is one notch above the current rating issued

by a Japanese rating agency. To this end, we will continue striving to improve our financial soundness.

Financial Soundness Vision	
Debt-to-equity ratio <sup>*13</sup>	0.6–0.7 times (range)
Interest-bearing debt/EBITDA ratio <sup>*14</sup>	4 times (range)
Issuer rating	BBB+ or higher (Japanese rating agency)

\*12 Consolidated payout ratio: Total cash dividends / Profit attributable to owners of parent × 100

\*13 Debt-to-equity ratio: Interest-bearing liabilities (fiscal year-end) / Shareholders' equity (fiscal year-end)

\*14 Interest-bearing debt/EBITDA ratio: Interest-bearing debt (fiscal year-end) / [Operating income + Depreciation]

This document contains forward-looking statements that reflect the Company's judgments based on various assumptions. The Company makes no guarantees or promises regarding the certainty, completeness, or implementation status of such statements.