

Q&A Summary of the IR Business Briefing of Furukawa Electric Co., Ltd.

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Contents: Communications Solutions business

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Q: Currently, supply and demand of optical fiber is tight, but do you still have any unutilized manufacturing capacity? Also, do you have any plans to make additional investments?

A: Tight supply and demand is apparent primarily for general-use fiber. Our net sales are mainly from optical cable, and the optical fiber business mostly supplies in-house demand and other cable manufacturers. Orders continue to be strong on the back of robust cable demand, and we have been working to increase capacity since 2017 in response to this demand while balancing between our optical fiber and cable manufacturing capacity.

Presently, the shortage of helium is starting to pressure production volumes in relation to substrate and fiber drawing capacity.

We will consider and implement the necessary expansions after fully utilizing our current expanded capacity.

Q: The competitive environment is changing in the optical device segment, but what is your current position in the market? Also, what is your outlook particularly for the excitation

device market and expectations for increased profits?

A: Concerning ITLA, we are maintaining a good position within the industry. Together with our business partners in Japan, we are managing the business while leveraging our cutting edge technological capabilities. Concerning excitation devices, our Raman amplifier contains world-leading technology, and sales of our new products have increased in recent years. Although the sales growth is small compared to ITLA, we are maintaining a high profit margin.

Q: Concerning the issue of securing personnel and enhancing skill levels at the location in North America, what improvements will you work to achieve in the medium-term?

A: The hiring environment is particularly challenging in Georgia where our optical cable site is located, and due to the low unemployment rate and rising wages, there continues to be turnover mainly among the direct production workers at the plant. Open positions are continually being filled, but we have not yet secured all of the people we need. We have increased salary, strengthened hiring activities through local high schools and temporary staffing agencies, improved the training system after joining the company and enhanced OJT training, and the situation is improving compared to last year.

Also, in addition to staff and engineers at the other locations within the group, we are dispatching direct production workers to the United States to provide training. We are shifting from hiring people to fill open positions to conducting hiring and training before a position opens up.

Q: Why have profits in the optical device business not increased much compared to 5 years ago? Also, what actions will you take directed at the future?

A: Through the development of new products, we have transitioned (from the old products), but progress has been slightly slower than anticipated. We have mainly focused our efforts on the development of low power consumption Nano ITLA for data centers and DFB chips for the fusion of photonics and electronics (in the future). Development is nearly complete, and we will work to grow (net sales and profits) directed at FY2025.

Q: I understand optical cable productivity in North America is improving, but to what extent do you expect the rollable ribbon cable market in North America to grow? Also, what is your position in the market, and what is your outlook for the future, including in connection to networking systems?

A: Optical fiber and cable demand is increasing in all markets, including telecommunications carriers, OTT (data centers), dark fiber providers, Tier 2 & 3, etc. Demand is also increasing for rollable ribbon cable, and we are focusing our efforts in this area as a value added product. Also, in the networking systems business, we are strengthening our response for providing wireless, connectors, terminals and other products as a new package based on an awareness of easy installation. In addition to responding to LAN systems for local communities, factories and hospitals, we are also targeting data centers. Based on the view that optical cable growth = growth of the networking systems business, we will concentrate on the areas in which we can leverage our strengths and achieve definite profits.

Q: What is your overall image for the global network, including Europe and Asia, as well as the status of activities and vision for the future?

A: In Europe, Chinese companies entered the market, causing prices to collapse, but prices are currently recovering. FTTH demand is increasing, and in addition to duct micro-cables, we will secure a market position by supplying these cables along with the bendable Invisilight etc. as a package. Concerning the manufacturing sites, we are strengthening the establishment of the Morocco site. We will transfer equipment from the site in Germany and consolidate operations. While the situation at our site in Russia continues to be difficult, we will strengthen the site in Morocco.

In Asia, it will take some time, but we will strengthen the networking systems business as the third business region following Brazil and Central & South America.

In Japan, based on firm demand of data center and FTTH, the business scale is forecast to remain generally unchanged in FY2022 compared to last year. Over the medium term, demand in Japan will decline, but we will strengthen sales of rollable ribbon cable overseas, including North America.

Q: Is there still room for you to grow in North America?

A: Given the active demand from telecommunications carriers and other customers, there is room for growth. We have a strong position in the Tier 2 & 3 markets, and in addition to firmly supplying products to customers in these markets, we will increase sales of high value added products (including for other markets).

Q: What is the technical level of your site in Morocco?

A: It is a low cost, stable manufacturing site of general-use products mainly for the markets in Europe. Going forward, we will transfer technology there to prevent the site from falling

behind in terms of productivity.

Q: With the back order over 6 months long, are you able to raise prices? What are your expectations for incorporating higher expenses in the sales price once the outstanding orders have all been filled?

A: It is difficult to raise prices for the orders already accepted, but some customers have agreed to higher prices. We expect to completely fill 100% of the outstanding orders by the end of this fiscal year. Based on the premise of filling orders as quickly as possible, we have set internal targets. The publicly announced targets are based on conservative assumptions.

Q: Concerning page 12, what is the status of the raw material shortages and its impact on production, and what is your outlook for when this impact will be eliminated?

A: In particular, helium and semiconductors are having a severe impact. Helium is impacting optical fiber production volumes, and there has been particular impact on production in Japan. Currently, it is unclear when the situation will improve. Concerning semiconductors, the shortage is having a noticeable impact both on us and our customers. We are responding through advance procurement and design modifications, and although procurement costs have risen, there has not been any impact on production at this time. The situation at our customers is difficult to predict, and the optical products business has been particularly impacted. Regardless, we are paying close attention to the current trends.

Q: Concerning the business portfolio and allocation of management resources. In the Communications Solutions business as a whole, profits have not increased much so far. Do you have any plans to narrow down the products during the 2025 Medium-term Management Plan?

A: We will fully utilize the manufacturing capacity already invested in and increase sales of high value added products. Mainly at OFS and FEL, we will concentrate on products with particular strengths such as specialty fiber (for submarine cable and non-telecommunications domains) and accelerate the restructuring of the business. We will strengthen these products at AVON in the United States and at the Demark site in Europe. For optical cable, we will strengthen rollable ribbon, Invisilight and so on. Also, in the networking systems business, we will expand the business model developed in South America around the world. Hybridizing (combining) tangible and intangible sales will be the main direction during the 2025 Medium-term Management Plan.

Q: Concerning industrial lasers, what are the differences between the approach for the volume zone and the approach targeting specific domains, and what is your strategy for achieving future growth?

A: Our hybrid laser (BRACE[®]X) excels in high quality welding of copper, and we are focusing on applications for EV (motors, batteries, etc.). Our IR laser incorporates accumulated welding technology for aluminum, steel and plastic in addition to copper, and we are marketing it to a wide range of domains, including automobiles. We will further grow the business both in Japan and overseas.

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