

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

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Contents: Automotive Products business

Speaker:

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Observers:

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**Q**: Concerning the response to risk, what kind of BCP measures have you implemented? Also, what are your thoughts about the balance between implementing those measures and increased costs?

**A**: Concerning the BCP measures, based on the assumption of an event similar to the production site lockdowns that occurred during the COVID-19 pandemic, we are working to create a system in which 80% of wire harness manufactured on multiple manufacturing lines can be produced at 2 sites. In addition, for the products manufactured at a single site, we are taking steps to enable the swift transfer of the manufacturing lines and start of production in the event of an emergency situation (secure the minimum level of equipment and space necessary). Concerning the increased costs for the BCP measures, we are negotiating with customers about sharing the costs.

**Q**: As you move toward a 2 site production system, will there also be a shift to common components?

**A**: Rather than using common components, we will make it easier to manufacture the harnesses at multiple locations by reducing the number of harness models. Concerning the functional components, they are already being manufactured at 2 locations (same products using the same components).

**Q**: What are the reasons behind the flat profit forecast heading into FY25? Is there any room for increase?

A : Concerning net sales through FY25, the figures have been compiled based on the firm orders, so there will be no major changes going forward. The key issue will be to what extent we can generate profits from those net sales. The main factors for increasing profits will be improving productivity and reducing costs. Stable production by automobile manufacturers will be important to improving productivity, and given the recent stability, the expectations for FY24 and FY25 have improved. Also, with the aim of increasing the ability to withstand production volatility, we are working to train multi-skilled workers and leaders, as well as establish a system in which production can be shifted between sites.

Q : Directed at FY25, what are your expectations for increased net sales?

A : Concerning the FY25 target, it is necessary to thoroughly assess the target based on the changes to copper prices and exchange rate going forward, but net sales should gradually increase compared to FY24. On the other hand, there will likely be no sudden increases.

Q : What is your awareness and response regarding product compensation?

A : An important point for limiting the occurrence of quality problems is improving the risk detection capability. During the product design and manufacturing process reviews, it is of course confirmed that the customer specifications are met, but we also conduct design reviews from the perspective of potential risks when the product is launched onto the market. The reviews are conducted not only in the Automotive Products business but within the whole group, as well.

Q : Will the profit margin rise as the ratio of aluminum wire harnesses increases?

A : The profit margin on aluminum wire harnesses is not necessarily higher than copper wire harnesses. For the customer, although it is possible to reduce costs from the price difference of the conductor material in aluminum wire harnesses, on the other hand, the terminals cost more. In other words, depending on the harness, the total cost may increase or decrease. However, we are able to limit the cost increases for the terminal part compared to other companies through the use of our original Alpha Terminal<sup>®</sup>. As a result, the range of products with an overall lower cost is broader. Customers appreciate this point, and it is contributing to increasing profits through increased orders for our aluminum wire harnesses.

Q : Concerning the automation of wire harness production, how much cost improvement do you expect in Phase 1? Also, what are your thoughts about the split wire harnesses sold

by other companies (Sumitomo Electric Industries, Ltd.)?

A: The main objective of wire harness automation is “local consumption of local production”. By automating the manual processes, the limitations on the manufacturing site will disappear, enabling local consumption of local production. Therefore, we are aiming for the cost of automated production in Japan to be on the same level as the current production cost in Southeast Asia.

Also, one of the key points for advancing automation will be to eliminate complex wire harness forms that can only be made by hand. Thus, we view split wire harnesses to be one way to eliminate complex wire harness forms directed at automation. However, each method for eliminating the complex forms has its own merits and demerits, and each company is implementing its own initiatives based on these merits and demerits.

Q: Going forward, how will you increase ROIC? What are your initiatives for controlling invested capital and improving the product mix?

A: We will work to increase ROIC by increasing capital efficiency. Because production at multiple sites is generally disadvantageous from the perspective of limiting inventory, while narrowing down the sites required to have multiple production lines (Vietnam and Philippines), based on manufacturing the products that can be manufactured on a simple production line at 1 site, we are taking steps to prepare for relocating the production line in the event of an emergency situation. Although there are limited expectations for increased net sales in FY24 and FY25, we will increase profits through initiatives to improve productivity and strengthen the ability to respond to volatility in production volumes. The negotiations with customers concerning price improvements are moving forward, and although we have received acceptance for the increased raw material prices and logistics costs, the negotiations will remain ongoing. The results of future negotiations have not been incorporated in the forecast.

Q: Due in part to the shift to EV, there is a trend toward lighter wire harnesses with fewer wires. For your products, do you expect profit per vehicle to increase?

A: Our functional products, including SRC, BSS and radar, are still not equipped in a large number of vehicles, so as more of our products are equipped in the vehicles, profit per vehicle is expected to increase.

Q: Regarding net sales growth by product shown on page 21 (particularly the high growth rate of high voltage products), can you provide any specific figures or other data?

A : For SRC, there is an opportunity to increase sales following the model changes, and we will work to increase sales in Brazil and India where the level of adoption is still low. For BSS, the level of adoption in various types of cars is increasing, and it is expected to be increasingly adopted in *Kei* cars and industrial equipment other than vehicles. For high voltage products, there are needs in the area around the engine/ motor, and based on the orders already received, we expect these products to grow at a rate of 40%.

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