

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: Based on the calculated scale of the subsidies, BEAD (Broadband Equity Access and Deployment Program) demand in the North America optical fiber and cable market, which is starting to show improvement, should increase 20-30% in terms of fiber length. Is it correct to assume that you and Corning, who has also been BABA (Build America Buy America Act) certified, will benefit from this demand? Also, what are your thoughts about selling fiber to cable competitors?

A: BEAD demand will occur over the next 5 years, and at the peak, it is expected to account for 20-25% of North America demand. It is generally correct to assume that we and Corning will benefit from the BEAD demand. In relation to supplying fiber to cable competitors, we will decide individually based on the economic rationality.

Q: Have you fully prepared a manufacturing system directed at securing manufacturing capacity and increasing production when demand recovers? Will there be any problems in relation to the products that are difficult to manufacture?

A: There are no problems in relation to manufacturing capacity. Currently, our site in North America has downsized to match the manufacturing volumes, so in addition to expanding hiring and enhancing training in preparation for the demand recovery, we are strengthening the personnel support from other sites and facility maintenance.

Concerning the products that are difficult to manufacture, we plan to utilize sites outside of North America and optimize the production system.

Q: Concerning the BEAD Program, a long time has already passed before deciding BABA certification. Going forward, is there a risk BEAD demand will be further delayed?

A: BEAD demand will last 5 years. It is expected to begin in the second half of FY24, become full scale in FY25, peak in FY26-27 and continue until FY29-30. We do not foresee any major risks at this time, but just to give one potential risk, customers may delay their investment decisions while focusing on the direction of the presidential election.

Q: Concerning the manufacturing system, what issues exist when responding to RDOF (Rural Digital Opportunity Fund), and how have you solved these issues to date?

A: The issues are primarily securing personnel (hiring) and ensuring they stay with the company (retention). In relation to securing personnel, we have revised the hiring criteria, including with consideration for potential turnover, expanded the scope of hiring and increased salaries. We have also introduced a retention program. In addition, we are implementing measures in the area of training and education, including standardizing and visualizing the skills that should be possessed.

Q: How do you view the competitive environment in the United States? Is it possible the competitive environment will change, such as the entry of Indian or European companies? Also, what measures will you take in response to falling prices of general-purpose products in the event such companies enter the market?

A: Concerning the markets other than BEAD, there will likely be price competition due to the entry of companies not eligible for BEAD. Also, although it is not directly related to the US market, demand has remained below supply in China for the past several years. As a result, there are concerns of fiercer price competition for general-purpose products following the entry of Chinese companies into markets in Southeast Asia and Africa. We will not compete in these areas and instead shift to high value-added products, such as products and solutions for FTTx and products for data centers. Also, from the perspective of increasing cost competitiveness, we will utilize the manufacturing sites located outside of North America.

Q: What is your current feeling about achieving the mid-term plan targets, including factors that may lead to overachieving/underachieving the targets?

A : The telecommunications market was temporarily weak in FY23 and FY24, but given the increasing data traffic, we are certain the market will grow in the medium- to long-term. As factors that could lead to overachieving, in addition to HSDC (hyperscale data centers), there is increased demand from more active medium-scale data centers. Factors that may lead to underachieving include slight delays to BEAD demand and falling prices in overseas markets due to the low demand in China. Concerning data center demand, along with strengthening targeted sales and marketing, we will capture demand and respond with a global manufacturing network, including Brazil and Mexico.

Q : Concerning the graph on the right hand side of page 13, high value-added products and solutions already account for a large part of net sales as of FY23. Directed at 2030, how will you increase the profitability of these products and reap the benefits? (I believe that BEAD demand will raise profit levels)
Also, concerning data centers, how will you increase profitability?

A : In FY23, the damage to net sales from general-purpose products was large while the high value-added products and solutions were not bad. As a result, high value-added products and solutions accounted for a large part of overall net sales (however, we will work to strategically increase the ratio of high value-added products and solutions going forward). Directed at realizing this, in addition to capturing the growing data center demand by strengthening the sales and marketing function, we will shift to high value-added products and expand the customer base, including for FTTx solutions, enterprise, submarine cable and specialty fiber. We will also enhance the manufacturing system for data center products.

Q : Concerning optical devices, shipment volumes will increase in FY24, but other than the effects of increased volumes, what are your thoughts about measures to increase profitability, such as improving the product mix?

A : Demand for ITLA for digital coherent communications is expected to recover from the second half of this fiscal year, and demand for DFB for data centers is already recovering since the start of the fiscal year. Our product mix includes a large number of new products, but we will work to improve productivity and reduce costs with the aim of increasing profitability. Concerning the products for data centers, productivity is expected to increase as a result of increase shipment volumes.

Q : What is the risk scenario for BEAD demand in relation to the presidential election? Also,

how will the customer mix change following the start of BEAD demand?

A : From the standpoint of BEAD investments, it is difficult for us to judge how we should view the presidential election. Our major customers have traditionally been tier 2 and 3 telecom companies. The BEAD Program will be implemented separately by state or region, and these companies will be the major players. As a result, our customer mix will likely not change very much.

Q : You have been late to enter the data center market. In what areas will you appeal to customers and acquire market share?

A : We are already reorganizing the sales and marketing function for data centers. Also, along with expanding the lineup of products for data centers, we will propose solutions leveraging high-performance fiber and specialty fiber that utilize our advanced fiber technology.

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