

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

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Contents: Communications Solutions business

Speakers:

Toshihiko Ota, Corporate Senior Vice President and General Manager of the Communications Solutions Division

Shinji Asao, Corporate Vice President and General Manager of the Optical Solutions Division

Takeshi Ogamino, Corporate Vice President and General Manager of the FTEL Products Division

Makoto Hasegawa, General Manager of the Broadband Solutions Division

Observer:

Koji Aoshima, Director, Corporate Senior Vice President and General Manager of the Finance & Accounting Division

Q: Concerning the main products of the Communications Solutions business, what is your positioning in the market, who are your competitors and customers and what are your future revenue opportunities? Given that you are the only company to manufacture hollow core fiber in Japan, is it a revenue opportunity?

A :

- Rollable ribbon cable customers are mainly hyperscale data centers. The number of dark fiber providers is also increasing. Our competitors are the optical cable manufacturers in Japan and North America. Demand for data centers is extremely strong, and it is expected to make large contributions to future earnings.
- MT ferrules are used inside data centers. Here too, our competitors are the optical cable manufacturers in Japan and North America. However, we acquired the company Hakusan Inc., and we are now in the No. 2 position globally in the low loss ferrule market. We will work to increase profits by selling the ferrule combined with cable as preterminated cable assemblies.
- Hollow core fiber is still in the development stage, but we are proceeding with performance confirmation by data center operators, and the inquiries are growing.
- DFB laser chip competitors include multiple companies in Japan and overseas. Demand is growing, and we are currently increasing manufacturing capacity by fivefold through investments in expanding production. We have already received orders from several transceiver manufacturers. In addition to the recent demand growth, our next-generation high output DFB laser chip is expected to be used as a light source for CPO. One of our strengths is our ability to manufacture in a vertically integrated process from the DFB laser chip to the ELS module, and directed at starting mass production next fiscal year, we are

already working to align with customer specifications and provide samples for evaluation.

Q: You foresee North America optical cable demand growing at a CAGR of +12% over the next 5 years, but what will the growth rate be for each product you specify on pages 14 and 17? How will growth rates change over these years?

I believe it is a volatile market, so how will you respond to investment risk?

A :

- Page 14 Concerning North America cable demand, the growth rate will increase through FY27 and maintain that high growth rate from FY28. Because it is a volatile market, deciding whether to make additional investments is difficult, but we will give careful consideration while focusing on the changes in demand going forward.
- Page 17 For optical components, demand for solution products inside data centers is expected to be particularly strong, and the market is forecast to grow at an annual rate of 20-30% from 2024-2026. DFB laser chips are even larger. In addition, through market adaptation of next-generation DFB laser chips for CPO, they will be in increased demand in 2-3 years. In the area of solution products for connecting data centers, in conjunction with the solution products for inside the data center, the market is forecast to grow at an annual rate of 10-20% per year.

Q: Given your focus on the telecom market up to now, what factors were behind the successful switch in your strategy to capture data center demand?

Also, to what extent does profitability differ between data center and telecom sales?

On page 13, you foresee net sales to the data center market growing by quadruple in FY25 compared to FY23. Is there room for further growth directed at FY2030?

A :

- We have been developing products including rollable ribbon cable, MT ferrules and DFB laser chips since before focusing on the data center market, and we were able to enter the market and strengthen the manufacturing system, including through the acquisition of Hakusan Inc., just as the data center market became more active. In addition to already possessing products, the extremely strong demand was also a factor in our success.
- Because the profit margin differs for each product, it is impossible to provide an all-encompassing statement, but overall, profitability is higher for data centers. Directed at 2030, if the market is expected to grow further, we will consider increasing production capacity in response.

Q: Will your business policy of aiming to achieve increased profits on higher revenue by expanding capacity and capturing demand lead to achieving the companywide ROIC improvement strategy? Other companies are moving toward narrowing down the product

domains and business fields and improving profit margins. In contrast, you seem to be moving toward expanding the lineup. Will you be able to achieve both increased volumes and increased profitability?

Also, how will the new brand Lightera contribute to increasing profitability? I believe the business features differ in each region, but are you considering a consolidation or reorganization of your locations? Or do you intend to expand through synergies?

A :

- Our product portfolio is not very broad, and we have narrowed the lineup down to optical components for inside data centers and rollable ribbon cable and connectors for connecting data centers. Leveraging our current products, we will make priority investments in the products that are expected to grow in the future.
- Concerning optical fiber and cable products, we have formulated and executed strategies in each region up to now, but based on the new organization, we will formulate a single global strategy and execute this strategy in each region. Through this, along with optimizing and streamlining the global allocation of resources, we expect to realize benefits from utilizing the strengths of each region in other regions and from increased personnel exchanges. Regarding the consolidation and reorganization of the locations, we have already closed plants in China and Thailand and are consolidating the resources. Following this, we will generate synergies as Lightera, enhance our strengths and aim for growth.

Q: In the FY2025 forecast shown on page 4, you expect to achieve net sales of over JPY 235.0 billion and operating profit of over JPY 7.5 billion. What are the conservative elements of this forecast?

Is there any potential upside, such as the timing of customer certification and spot investments in MT ferrules, which have a short product lead time?

Given that other companies are also moving to increase production capacity of MT ferrules and MPO connectors, is there a possibility of oversupply?

A :

- The data center market is active, and because the strong demand outpaces our supply capacity, we believe there is potential upside to both net sales and operating profit through increasing productivity and moving forward the investment timing.
Because the data center market tends to progress on a project basis, it is a business with large demand fluctuations. Therefore, it is necessary to maximize net sales and profits while both conducting sales activities and preparing the production system. This point differs compared to the telecom business. If we can receive orders that will allow us to fully utilize our production capacity, then there is room to further increase net sales and operating profit. The key points will be reducing lead time and more quickly receiving customer certification.
- Because there are currently few suppliers of high performance MT ferrules, we are not

concerned about oversupply for the time being. However, it is possible that Chinese companies and other manufacturers may catchup technologically, so we will pay attention to the market and competitor trends.

Q: Other than the data center market, what is your strategy for North America telecom companies, which has traditionally been a strong area for you?

A :

- We traditionally focused on Tier 2 and Tier 3 companies among the North America telecom carriers, but we lost customers due to the temporary challenges faced with productivity. Currently, we are strengthening the damaged customer base and working to increase the number of customers.
- Within these activities, demand for data centers is growing from existing dark fiber provider customers. We will definitely capture this demand and strengthen the foundation while increasing the number of customers.
- Concerning the BEAD Program, from the standpoint of technology neutrality, it has been indicated that the program may be expanded to include wireless and satellite internet, and movement on the project is currently stopped. We expect the start of BEAD demand to be delayed by at least six months from the originally anticipated start in the second half of FY25, but while maintaining the relationships with our customers, we will catch the demand. There is no change to our policy of providing BEAD compliant products.

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