

Q&A Summary of the Conference Call for Institutional Investors and Analysts of Furukawa Electric Co., Ltd.

Date: August 6, 2024 (Tuesday) 17:00 – 18:00

Contents: FY2024 Q1 Financial Results

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

Q: How has the Functional Products business been progressing recently, and what is the outlook? Also, you issued a news release stating that you will begin mass production of water-cooling thermal management products, but can you provide a supplementary explanation of the details?

A: Thermal management products are strong as a result of robust generative AI related demand. Also, AI is starting to drive data center demand, and the inventory adjustments for HDD aluminum blanks are progressing. AI related demand is also appearing for AT products (tape for semiconductor process) and copper foil, but overall, the recovery is still small. AI related demand is expected to remain strong in Q2 and beyond, and if the current situation continues, we will think about revising the full year forecast. We plan to record net sales following the start of mass production of water-cooling products from FY26, and until then, air-cooling products will account for the majority of net sales.

Q: Concerning the Communications Solutions business, what is your current outlook for BEAD related demand in North America?

A: BEAD related demand feels like it will be slightly delayed from expectations. Initially, we expected demand to pick up from FY24H2, but the start may be pushed back to FY25. We will carefully assess the situation.

Q: Will the delay to the start of BEAD related demand have the potential to cause the optical fiber and cable business to underperform?

A: BEAD related demand was originally expected to be minor in FY24. We have acquired orders for high performance ultra-high count multi-core cable (other than for BEAD related demand), and at this time, we do not believe the business will underperform.

Q: What are the factors behind the increased profits in the Automotive Products and Batteries business compared to last year? Also, how much progress have you made in achieving the

full-year forecast? Have fluctuations in the price of copper had an impact?

A : The reason of growth is increased profits in the Automotive Products business. The main factors are improved productivity resulting from stable production among major Japanese OEM customers and the elimination of the product compensation expenses of about JPY 0.7 billion that occurred last year. I believe the business is progressing generally in line with the full-year forecast.

Regarding the price of copper, because we basically adopt sliding prices, there is no impact on profit and loss.

Q : In the thermal management products business, I believe you are late to enter the water-cooling segment, but what are your thoughts about market growth and your competitive advantages?

A : One of our strengths is our ability to carry out design and development in step with the customer's development. The current investments in water-cooling products were made in line with orders received from customers. Given this, I do not believe we face any competitive disadvantages.

Q : The Energy Infrastructure business generally has not generated profits in Q1. What is behind the current strong financial results? Also, based on these figures, will full-year profits exceed the initial forecast?

A : The strong financial results are due to the early occurrence of projects expected this year, and it is not a factor that will lead to overachieving the full-year forecast.

Q : In the Automotive Products business, how much has the business been impacted by Japanese OEM struggles in China and type certification scandals?

A : Japanese OEM production has been stable, and at this time, we do not foresee any major risks. Concerning the difficult conditions in China, we have incorporated this into the initial forecast, and concerning the type certification scandals, the impact on our range of products is limited.

Q : In the Communications Solutions business, why have the losses increased compared to the same period last year despite the inventory adjustments bottoming out in FY23Q3? Is the progress slightly behind expectations?

A : Because demand had just started to fall in FY23Q1, the losses have increased compared to this period. Also, a one-time increase in orders occurred in FY23Q4, so the results were already expected to decline in FY24Q1. Concerning current progress, North America is slightly exceeding expectations, but Central and South America is struggling with the impact of lower prices. Overall, the business is progressing generally as expected.

Q : Are the financial results in the Functional Products business expected to continue increasing from Q2? Are orders in the thermal management products and memory disk businesses increasing?

A : Orders in the thermal management products and memory disk businesses are strong. In the Functional Products business as a whole, operating profit in Q1 alone was on par with the entire second half in FY23 (JPY 3.4 billion). If this situation continues, the financial results will gradually increase from Q2.

Q : Concerning profitability in the FITELE Products business, you are focusing on high value-added products such as DFB lasers as one factor for increasing profits, and higher costs may be incurred to expand manufacturing. I believe that as of this time, profits are still below costs, but what efforts will you make to improve profits?

A : Product demand for data centers, including DFB lasers, is active, and the key points will be firmly capturing this demand and improving manufacturing capabilities (MONOZUKURI capabilities) for responding to this demand. We are currently working towards these two points, and for both, we intend to generate results in H2 of this year.

Q : Investments continue to exceed depreciation expenses. What are your thoughts about company-wide cost/cash flow management, including the status of fiscal control?

A : The higher D/E ratio is due to the impact of the sales of UACJ shares, and excluding this, the D/E ratio is generally unchanged.

We will continue to invest in growth while selling assets within the extent of the (set) cash allocation, but this year, we will reduce net interest-bearing debt.

Q : Given the delayed start of BEAD related demand, I believe the losses in the optical fiber and cable business will continue. How will you control costs?

A : Rather than controlling costs, while securing personnel and preparing the manufacturing system directed at the rise of telecom and BEAD related demand, we will

work to strengthen the sales marketing function, enter the data center market and increase profitability.

Q : In the thermal management products business, a large number of competitors are expected to enter in the area of water-cooling products. Will it potentially become an unprofitable segment, and how will you differentiate yourself?

A : We will differentiate ourselves through close cooperation with the customer, and as long as the market does not contract, we do not believe it will become unprofitable.

Q : In the Functional Products business, will you be able to aim for full year results close to 4 times the Q1 results? What impact has foreign exchange had on the financial results?

In the current full-year forecast, we expect profits to increase from H1→ H2, and at the present time, there are no negative factors that could negate this outlook. The main factor behind the strong performance in Q1 is increased volumes backed by strong demand, and the impact of foreign exchange has been minor.

Q : Concerning the Communications Solutions business, the financial results of your competitors are recovering compared to the same quarter last year. Why have you fallen behind?

One of the factors behind the recovering financial results at competitors is assumed to be strong sales for data centers, but it is also necessary to look at the status of recovery in the telecom segment. We have a different customer base than our competitors. In addition to this, falling prices in Central and South America and reduced inventory valuations impacted the financial results in Q1.

Q : Among the initiatives to optimize the business portfolio, what are the objective and expected benefits of “establish a global holding company for the optical fiber and cable businesses”?

The main objective is to speed up decision making by centralizing the command and control function as a result of substantially integrating the business operations of the business units in Japan, United States (OFS) and Brazil (FEL) on a global scale. Through this, we will work to improve recent profits and link it to growth directed at 2030.

Q : What was behind the recent sale of shares of UACJ Corporation?

The aluminum business is not a core business for our company, and the synergies are expected to be limited. Given this, consideration has been given to reducing the equity share since UACJ became an equity method affiliate. Including the recent stock price and intent of UACJ, we decided that it was a good time to sell some of our shareholding.

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