

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

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Contents: FY2024 Q2 Financial Results

Speakers: **Hideya Moridaira**, President

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

Q: What are the factors behind the changes from H1 to H2 in each sub-segment, including whether they are one-time factors or increased earnings capability?

A:

- Communications Solutions: The change from H1 to H2 is JPY +5.6 billion. Of that, networking related products in Japan in the Broadband Solutions business, which is weighted toward H2, will account for JPY +1.5 billion. Recovering optical fiber demand will account for JPY +1.0 billion. Capturing demand for data center products such as rollable ribbon cable, MT ferrules and DFB laser chips will account for JPY +2.5 billion. As a one-time factor, improvement from the lower of cost or market valuation will be JPY +0.5 billion.
- Energy Infrastructure: The change from H1 to H2 is JPY (0.8) billion. In the Industrial Cable & Power Cable Accessories business, the special demand for the functional cable, which had been strong from FY23 H2, ended during FY24H1, resulting in a downward change of JPY (0.4) billion. In the Power Cable business, the moving forward of projects from H2 to H1 will result in a change of JPY (0.4) billion.
- Electronics Component Material: The change from H1 to H2 is JPY (1.7) billion. The foreign exchange rate at overseas subsidiaries and sudden volatility in copper prices had a positive impact in H1. The changes in copper prices will average out during the current fiscal year.
- Functional Products: The change from H1 to H2 is JPY (0.8) billion. The weaker yen compared to the exchange rate assumption of JPY140/USD had a positive impact of about JPY 1.0 billion in H1.
- Automotive Products & Batteries: The change from H1 to H2 is JPY +0.6 billion. The financial results in H1 were the sub-segment's actual earnings capability, and these levels are expected to continue in H2.

Q: Concerning the acquisition of Hakusan Inc. (hereinafter "Hakusan") shares, what is the strategic meaning, areas in which it will contribute to profits and the timing of those contributions?

A:

- The objective is to expand the connector business, including for data centers. In addition to cable terminals, with an eye toward expanding to chiplets in the future photonics-electronics convergence, we will aim to achieve further growth by combining the manufacturing and development capabilities of Hakusan with our resources and market share. Hakusan handles a wide range of connectors, including high-end products. We offer mainly high-end products, and by working together with Hakusan, we will strengthen our high-end product lineup.
- In regards to increasing market share for data centers, we are already working to enhance internal manufacturing capabilities, and the benefits should start becoming visible in the near future.

Q: Why were profits in the Automotive Products & Batteries business at unprecedentedly high levels in H1? Given that the business is weighted toward H2, is the full-year (H2) forecast too conservative?

A:

- The reason for the strong performance in H1 is the upturn from Q1 to Q2 (JPY +4.1 billion). The retroactive price revisions for batteries had a positive impact of JPY +1.6 billion. In addition, the pass of foreign exchange rate, labor costs and other expenses on the sales prices in the Automotive Products business had a positive impact of JPY +2.5 billion, and productivity is also improving. There are not expected to be any extraordinary positive or negative factors in H2, and given that price optimization for batteries, which is typically weighted toward H2, is progressing ahead of schedule, profits levels are forecast to remain unchanged in H2.

Q: What is the reason for the lower losses from Q1 to Q2 in Communications Solutions? In addition, losses are forecast to improve to JPY (0.2) billion in H2, but does this forecast include the benefits from Hakusan?

A:

- The change from Q1 to Q2 was JPY +2.2 billion. Of this, the demand recovery in the North America optical cable market including OFS and FEL and the subsequent productivity improvements accounted for JPY +1.5 billion. Sales in Brazil are also somewhat returning. In addition, in the Broadband Solutions business, increased sales in Japan accounted for JPY +0.5 billion.
- In H2, increased demand for data center products is expected to be JPY +2.5 billion compared to H1. Rollable ribbon cable will account for a majority of this increase, but the internally manufactured MT ferrules will also be a factor. Concerning Hakusan, the timing of consolidation is still being considered, and the impact has not been incorporated into the full-year forecast at this time.

Q : The upward revision for the Automotive Products & Batteries business was large. Generally, the impression of the market environment for automobiles is not favorable, what is your outlook? Are there any risks to volumes?

A :

- We are increasing sales mainly to the North America and Japan markets. Because we do not have many products for the Chinese market, we are minimally affected by the Japanese manufacturers' struggles in that market. Our business differs slightly from the overall automobile market trend, and we do not expect volumes to fall much.
- Concerning the upward revision to the full-year forecast, given that negative impacts to the automobile production plan incorporated into the initial forecast did not occur in H1, the resulting revision to risks in H2 had an impact, but the main reasons for the strong performance were improved productivity from stable orders and steady price optimization.

Q : In the Communications Solutions business, you have not revised (down) the full-year forecast, but is it possible to expect improvement in optical components following the increased capacity for DFB laser chips?

Also, based on the large optical fiber supply agreements announced by other companies, what are your thoughts about the medium-term recovery scenarios in the North America telecom market?

A :

- Given that the business is progressing nearly in line with the initial forecast and the anticipated recovery going forward is basically within expectations, the full-year forecast has been left unchanged.
- Concerning DFB laser chips, deliveries for data centers have begun, and these deliveries are expected to gradually rise from FY24 H1 to H2 to FY25. The benefits from increasing manufacturing capacity toward FY25 will gradually start to appear from H2 this fiscal year.
- Demand in the North America telecom market is still weak at this time. However, inventory adjustments are progressing, and there is starting to be movement in FTTH with an eye toward BEAD. The large agreements announced by other companies are believed to be part of this trend, and we are also holding similar talks.

Q : Can Communications Solutions recover in H2? In addition to delayed BEAD demand in the North America telecom market, given the large optical fiber supply agreements announced by other companies, it appears that the good customers are being taken, but what is your outlook on the market?

Also, is the Hakusan share acquisition aimed at restoring the business for data centers?

A :

- In the North America telecom market, our main customers are not the large

telecommunications carriers. Rather, they include dark fiber providers and MSO (Multiple System Operator). These customers are moving toward acquiring data center related orders, and this may lead to contracts for us. Going forward, we will continue to increase sales centered on our customer base while at the same time responding to data center related demand.

- Although the timing of BEAD has been delayed, we are starting to talk with customers based on a long-term perspective while also paying attention to when demand will occur.
- Given the above factors, we are not overly pessimistic about the market environment.
- Hakusan is the No. 2 supplier in the MT ferrule market, and while utilizing those strengths, we will pursue synergies, including combination with our cable and expanding into chiplet connection technology for CPO (Co-Packaged Optics) in the future.

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