

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

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Contents: FY2025 Q2 Financial Results

Speakers: **Hideya Moridaira**, President

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

Q: Operating profit in Communications Solutions business is expected to jump considerably from JPY 0.1 billion in the first half to JPY 7.4 billion in the second half. Can you provide details by product lineup on what is behind this increase?

A: Based on strong demand, we are increasing production, and progress was made in bringing this production online in the first half. Starting production at the expanded facilities for ultra-high count cable in the second half will cause operating profit to jump higher. The benefits from increasing production of optical components and MT ferrules have already been realized at a certain level, and operating at full capacity will guarantee to a certain extent the growth in operating profit in the second half. We have received orders, so if we can maintain production, I believe an upward revision is possible. Currently, we are monitoring the progress of increasing production.

Q: As the data center market remains extremely active in the United States, there have also been movements in relation to BEAD, and I have heard Tier 1 companies are operating at high capacity. To what extent will you be able to exploit this opportunity? You are forecasting profit of JPY 7.0 billion in the second half, but do you envision this figure doubling next fiscal year?

A: By firmly increasing production and maintaining manufacturing, we intend to maximize this opportunity, and it is becoming more likely that we will. In addition to increasing manufacturing capacity in the second half, given the recovery to profitability in the first half of this year, we can expect profits to increase to a certain extent next fiscal year compared to this fiscal year, but I would like to present specific figures after the budget has been finalized.

Q: In the Communications Solutions business, although the high margin products for data centers should be growing, why was there only a small improvement in profit from Q1 to Q2 despite higher net sales?

A: Q2 could have been slightly better in some areas.

For example, in regards to MT ferrules, the benefits from the acquisition of Hakusan Inc. have been realized in line with or even above expectations, but the other newly consolidated company Furukawa FITELE Optical Components Co., Ltd. (hereinafter FFOC) has been slow in returning to profitability. Also, sales of lower count cable are higher than sales of the high margin ultra-high count cable.

However, profit improved from Q1 to Q2, and in the second half, the full benefits from increasing production will contribute particularly in Q4, so we expect a large improvement in profits.

Q: In the Functional Products business, why did profit decrease on higher revenue from Q1 to Q2?

Also, in regards to thermal management products, to what extent do you expect demand for water-cooling modules to increase?

A: Stagnant sales of copper foil due to the impact of the strong Taiwan dollar and weak sales of tape for semiconductor process due to customer circumstances are the main factors behind the lower profits. In the second half, along with shifting to copper foil for high frequency circuit boards, which are in strong demand for data centers, we will strive to alleviate the impact of foreign exchange by changing the product mix. However, including changes in customer demand for tape for semiconductor process, the pace of the recovery is not expected to proceed as initially forecast. Also, concerning thermal management products, we are at the point of switching over from air-cooling to water-cooling, and although we do not expect any major growth this fiscal year, we have made the decision to prioritize increasing production of water-cooling products toward large growth from next fiscal year rather than pursuing increased net sales right now. Concerning water-cooling modules, based on the graph presented today, the results may exceed the forecast, so we will update the plan.

Q: During the presentation of the Q1 financial results, it was stated that you expect FFOC to become profitable in the second half, but what is the current outlook?

A: The transceiver market lacks strength, and sales of LN modulators are slow. Given this, the recovery will likely take longer than initially expected.

Q: Is the factor behind thermal management products exceeding the forecast increased orders from the same customers, or is it the result of a broader customer base?

A: Increased orders from the same customers are playing a large role, but a broader customer base is also a factor. Regardless of the reason, the business is moving in a positive direction, and the situation is changing daily. We will actively invest in increasing production with the aim of utilizing our strength, which is the timely

provision of high-end products.

Q: Can you provide a breakdown of the changes in operating profit from the first half to second half in the Communications Solutions business?

Also, to what extent will operating profit change from Q3 to Q4?

A: Of the change in operating profit from the first half (JPY 0.1 billion) to the second half (JPY 7.4 billion), the broadband solutions business that is weighted heavily in the second half will account for JPY 2.0 billion, increased sales of optical cable including rollable ribbon cable will account for JPY 3.0 billion and increased sales of MT ferrules will account for JPY 1.0 billion. In addition, the struggling FFOC recorded an impairment loss based on the lower of cost or market valuation in the first half, and along with returning to normal in the second half, operating profit is expected to be about JPY 7.0 billion. Data center demand is strong, so I believe it may be possible to exceed this figure.

Concerning the change from Q3 to Q4, the benefits from increasing production of rollable ribbon cable will be realized to a greater extent in Q4, so this quarter will account for the majority of the improvement expected in the second half.

Q: Profits in Functional Products business are expected to increase by JPY 2.0 billion from the first half to second half. What are the major factors behind this increase?

A: Thermal management products fell in Q2 compared to Q1 due to the changeover from air-cooling to water-cooling, and it is expected to remain at the Q2 level in the second half. We intend to cover this decline through increased profits from tape for semiconductor process, memory disks and copper foil. Rather than increasing production, we intend to shift the product mix to high performance products that are in strong demand from customers and increase sales.

Q: In the breakdown of changes in operating profit shown on page 14, what are the details of the improvement effects of JPY 4.9 billion, and how is this figure expected to change in the second half?

A: The main factors in the improvement effects are price optimization, improved productivity and the product mix. The reason it appears that the improvement effects have not largely increased from Q1 to Q2 is due to the lack of the JPY 1.0 billion evaluation difference on a copper hedge last year.

Price optimization realized improvement of about JPY 1.3 billion in the Energy Infrastructure and Automotive Products segments, and this figure is expected to be unchanged in the second half. On the other hand, the effects from improved productivity and product mix are expected to grow in the second half as net sales increase.

Q : What are your thoughts about the balance between CAPEX, depreciation and cash flow in the next medium-term management plan?

A : We are already making investments in the data center related businesses, including Communications Solutions and Functional Products, and we will start to reap the benefits going forward.

Concerning Rollable Ribbon Cable, we are investing in increased production of ultra-high count cable in Mie, but for cable with lower counts, we will utilize the capacity at Carrollton in Georgia and work to improve productivity.

For MT ferrules, we will shift to multi-core, high-end products and increase production.

For DFB laser chips, demand from the data center market continues to be strong, so along with increasing capacity and improving productivity, we will move to increase production, and at the same time, we will shift to high-end products and expand outside of simply selling chips.

For copper foil, we will shift to copper foil for high frequency circuit boards and strive to increase profits.

We increased the forecast for CAPEX this fiscal year by JPY 6.0 billion, but because securing capacity is a prerequisite for receiving orders in the data center market, we may continue with CAPEX exceeding depreciation going forward. However, we will consider the scale of investments in reference to the balance with cash flow so that free cash flow does not become negative. Under the 2025 medium-term management plan, we are now able to generate profits, and with the aim of enhancing the cash cows and generating profits, we will actively invest over the coming three years.

Q : I have heard optical fiber supply is tight in the United States, but what are your operating levels? How was the situation in Q2, and what is the outlook for the second half?

A : Supply is tight in the United States. As the supply and demand balance for data centers is tight, the forecast has grown higher and there are concerns about supply shortages. Presently, the orderbook for optical fiber is filled for quite a long time.

Within this situation, we are considering the manufacturing and sales of optical fiber based on a balance with vertical integration. Presently, the supply of fiber for our cables is tight, and with strong demand from other companies for fiber sales, operating rates are high. This situation is expected to continue in the second half, and we are making painstaking efforts to determine to what extent we can sell fiber to other companies. As a company, we would prefer to prioritize cable sales over fiber sales, but we will move forward while consulting with customers.

Q : Concerning the investments in increased production of water-cooling modules in the thermal management products business, what is behind doubling the FY2027 net sales

target from JPY 25.0 billion to over JPY 50.0 billion despite the current plant expansion not coming online until January 2028?

A : Following the recent demand growth for water-cooling modules, by expanding the initial scale of the water-cooling module plant scheduled to open in FY2026, we plan to more than double net sales in FY2027. In addition, following the plant expansion scheduled to come online in January 2028, we will secure manufacturing capacity toward achieving net sales of JPY 100.0 billion in FY2030.

Q : What is the status of customer certification for preconnectorized cable?

A : It is progressing steadily, and although we have passed the primary evaluation, the schedule has been extended slightly due to the customers' circumstances. We expect to receive certification by the end of the fiscal year.

Q : In the "Changes in net sales for the data center market (optical fiber & cable products and optical components)" graph shown on page 8, what is behind the low growth from FY2026?

A : Including the possibility of investing in increased production, there is currently some uncertainty, and this has not been reflected in the graph. For Rollable Ribbon Cable, MT ferrules and DFB laser chips, the forecast is strong and exceeds current manufacturing capacity for each. We are considering additional investments in increased production in a push toward further growth.

Q : What is behind the strong outlook for net sales of thermal management products shown on page 9? Have there been any changes, such as firm orders or expanded customer base?

A : The graph takes into account our response through FY2028. However, recent customer demand has been even stronger, so there may be further growth. The customer base is also expanding. Directed at utilizing our strengths, we will consider further increasing production of water-cooling modules with a focus on high-end products.

Q : In the Communications Solutions business, was a larger loss at FFOC in Q2 the reason operating profit only increased by JPY 1.6 billion despite net sales growing by JPY 9.0 billion from Q1 to Q2? Will FFOC become profitable in the second half?

A : We reported that the loss at FFOC was around 0.5-0.6 billion in Q1, and the loss worsened to about double this figure in Q2. The loss includes the impairment loss recorded from the lower of cost or market valuation, and although it will likely be difficult to become profitable in the second half, we want to bring the financial results to around the breakeven level. The other products including MT ferrules and DFB laser

chips are steadily growing, and these will likely be able to cover the downturn at FFOC.

Q : Even excluding FFOC, it feels like the growth in operating profit in Communications Solutions is low compared to the growth in net sales, but what factors are behind this? Are other regions, such as Central and South America, deteriorating?

A : Despite recording a loss, Central and South America is steadily improving. Looking at Lightera overall, there are factors that will temporarily impair profits, such as tariffs, higher raw material expenses and higher personnel expenses, but we will eliminate these factors through price optimization.

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