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

Date: May 21, 2025 (Wednesday) 17:00－18:15

Contents: Progress of the 2022-2025 Medium-term Management Plan

Speaker:

Hideya Moridaira, President

Observers:

Satoshi Miyamoto, Director, Corporate Executive Vice President and General Manager of the Strategy Division

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

Q：What are the factors behind increased profits in the Communications Solutions business in the future, including the status of customers and markets?

A：In the North America telecom market, inventory adjustments among Tier 2, 3 companies, which are our main customers, has progressed to large extent. However, the BEAD Program is delayed, and there is still no recovery in sight. On the other hand, orders have been increasing since the start of this year, and looking at the details of those orders, it appears that dark fiber providers have entered the data center market. Orders for hyperscale data centers are also increasing. Concerning productivity in North America, we have worked to quickly secure personnel, and there are no issues with manpower.

Demand for MT connector is increasing, and including Hakusan Inc., we will increase production five-fold in FY2025 compared to FY2023. We are also working to establish a system for shipping pre-connectorized cable (cable with connector) in the near future in addition to sales of just the connector.

Demand for DFB laser chips from system manufacturers and device manufacturers is robust, and efforts are underway to increase production five-fold in FY2025 compared to FY2023.

Q：How large of an impact will the tariffs have on the Automotive Products business?

A：The tariffs will have at least some impact. Basically, our policy will be to incorporate the tariffs in the sales price, and our customers have agreed to hold discussions. Concerning the size of the impact, it will depend on the direction of the tariffs and negotiations with customers, so while reflecting these changes, we will disclose the information at the appropriate time.

Q: Concerning thermal management products, you have set a timeframe for entering the water-cooling market, but what makes you certain about the competitiveness and profitability of your products?

A: Our current customers for air-cooling products have expressed needs for water-cooling products, and we plan to increase production after securing orders following the introduction of the customer's water-cooling method.

The design concept is generally the same for both air-cooling and water-cooling, and there will be no impairment to profit margins. Also, there are no major concerns about the risk of numerous competitors entering the water-cooling market.

Q: You are reviewing the business portfolios and organizations, but directed at the next management plan, is there anything lacking or issues that exist?

What discussions are being held at recent Board of Directors meetings?

A: The current direction of our initiatives is correct, but it is difficult to determine when is far enough.

One of the things currently lacking directed at the next plan is securing human resources. Including streamlining the business processes through the use of AI, we will likely have to restructure the organization from the perspective of maximizing the utilization of our human resources.

The profitability of each business is increasing, but further increasing this profitability is an issue for the future. As a financial target, becoming a company that can achieve operating profit of JPY 50.0 billion in normal business environments and JPY 100.0 billion in strong business environments is a major part of our vision for 2030. We also aim for operating profit margin of nearly 10% and will work to grow the businesses while increasing capital efficiency.

At the Board of Directors meetings, discussion topics have included mainly agenda criteria concerning changes to the institutional design, decision-making authority and personnel composition. Discussions are nearly complete, and the board is currently waiting for the resolutions at the Annual Shareholders' Meeting in June.

Q: In the Communications Solutions business, including acquisitions and establishment of new companies, is ROIC-oriented management being thoroughly implemented throughout the business as a whole? What are your thoughts about the benefits of the acquisitions and competitiveness of the FITEL Products business?

A: Concerning the profit contributions of the acquired companies, in addition to the simple combined effects right now, Hakusan Inc. is performing strongly based on robust demand for MT ferrules, and even if investments are made to increase production, it should be possible to quickly recoup that investment. The company is expected to greatly contribute to profits.

Furukawa FITEL Optical Components Co., Ltd. (FFOC) will contribute to profits more in the future, since its business structure has started to improve before the acquisition, and they are expected to recover going forward. Including the realization of a compact chiplet through the combination of our next-generation DFB laser chip and FFOC's modulation technology, FFOC will contribute to securing the competitiveness of the FITEL Products business in the area of IOWN and electronic-photonics fusion.

Q: In the Communications Solutions business, the operating profit margin is 3% (FY2025 forecast), which is lower than competitors (around 10%). Is there room to increase this profit margin?

A: One of the main reasons the Communications Solutions business has been unprofitable was the drop in optical fiber and cable products volumes due to weak telecom demand in North America. It is also true that we were late to enter the data center market. Also, demand for optical devices has been weak in the long-haul segment in the past year or two.

Currently, demand for data center products is growing, and increased operating ratios has enabled the business to surpass the breakeven point. In addition, profit margins have risen as a result of new orders for data centers, and there will be benefits from the addition of Hakusan and FFOC.

The Communications Solutions business can aim for a profit margin close to 10%, and this should become clearer following increased sales in the high-margin data center market.

Q: What is the net asset ratio of your cross-shareholdings, including UACJ Corporation? What is your target for such shareholdings going forward?

A: Cross-shareholdings accounted for 7% of net assets at the end of FY2023, and this ratio increased after removing UACJ Corporation as an entity accounted for using equity method. As a result of the efforts to reduce cross-shareholdings including UACJ, such shareholdings at the end of FY2024 were about 18% based on ISS standards and about 15% based on Glass Lewis standards. We intend to further reduce cross-shareholdings going forward.

Q: When will you start shipping pre-connectorized cable (cable with connector), and how large of an order do you expect to receive? To what extent will this change your profitability? I understand customers have been assessing samples, but what companies have samples been sent to? Other companies have stated there are risks with a global supply network. Has this led to an increase in customer needs directed to you?

A: If the customer indicates the results of the assessment, there may be movement in the first half of this fiscal year. However, because the customer is still assessing the samples, I will refrain from conjecturing about the size of the order. We may move forward with shipments gradually. For example, the pre-connectorized cable of the 6,912-core cable requires a considerable amount of time, so while establishing a production system based on the orders received, we will move forward while deciding whether or not all of our cables should be shifted to pre-connectorized cable.

Concerning profitability, it will depend on to what extent we can appeal for the added value of the connector processing and functions of the connector itself, but because pre-connectorized cable is closer to the solutions business, profitability should be higher than simple product sales.

Currently, one hyperscale company is assessing our samples, but given our production capacity, we are considering sales to multiple companies. Because supply capacity exceeds demand right now, how to capture demand is one of our main themes. We will need to increase our adaptability, including when the supply and demand balance slackens.

Q：How likely is the Communications Solutions business to grow from this year? Will you face any limitations in manufacturing capacity?

A：We may further increase production of rollable ribbon cable, MT ferrules and DFB laser chips going forward.

Given the current increased production system for pre-connectorized cable (rollable ribbon cable + MT connector), we may reach maximum capacity this fiscal year, and we are monitoring the situation.

We are working to steadily increase production of DFB laser chips, but given the launch of IOWN related products going forward, it will be necessary to make a decision with consideration for the balance of the product portfolio.

Q：In an article published in an industry newspaper you stated, "The 2022-2025 Medium-term Management Plan target of JPY 58.0 billion in operation profit is within reach", but the forecast for this fiscal year is JPY 53.0 billion. What came up short?

A：The statement in the article you mentioned was made at the end of last year based on the results at the end of FY2024 Q3. Despite the deconsolidation of several companies that changed the assumptions based on which the 2025 Mid-term Plan target was set, we saw the possibility of covering this and achieving the target of JPY 58.0 billion.

This year's forecast of JPY 53.0 billion is a conservative estimate based on the impact of tariffs and other factors, and we believe there is room to exceed this figure depending on the progress in the Communications Solutions, Functional Products and Automotive Products businesses.

The JPY 5.0 billion gap will depend on our efforts to incorporate the higher costs in the sales price, stabilize the supply chains and improve our manufacturing capabilities (MONOZUKURI capabilities).

End of document