

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

Date: May 13, 2024 (Monday) 17:30 – 18:30

Contents: FY23 Financial Results and Progress of the 2022-2025 Medium-term Management Plan

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

Q: Based on the fact that your optical fiber qualifies for BABA (Build America Buy America) and other companies are also able to participate in the downstream cabling process, what is your outlook for BEAD (Broadband Equity Access and Deployment) demand, and has it been incorporated in the FY24 forecast?

A: The fact that our optical fiber qualifies for BABA is a sales point. However, because it is expected to take some time until the BEAD subsidies are implemented, the actual effects are expected to occur from the second half of FY24 into FY25. Concerning the supply of fiber to other companies, on the premise it will not impair our own optical cable activities, we will decide appropriately on a case-by-case basis.

The situation should gradually become clearer from the second half of this year.

Q: Concerning future growth of the Functional Products business, what are your expectations, including the outlook for the AI market?

A: We expect the AI market to remain active in FY25, and it will likely drive the overall performance of the Functional Products business. Also, the currently challenging semiconductor market is expected to recover. Presently, our thermal management products, which are strong in the AI market, are growing, and tape for semiconductor process will recover. In addition, concerning aluminum blanks for hard disk drives, supply chain inventory, which had been stagnant for a long time, is starting to move following the construction of data centers. As a result, the aluminum blanks business is expected to gradually recover from the second half of FY24.

Q: Communications Solutions improved from FY23 Q3 through Q4. The main factor is likely improvement at OFS. To what extent did improvement at OFS contribute to the overall results? Also, why were you unable to set a more ambitious forecast for FY24?

A : Overperformance compared to the previous forecast for FY23 is almost entirely the result of increased sales at OFS. From the start of 2024, customers consumed their inventories earlier than anticipated, but because it is unclear if this trend will continue and how strong it will be, the forecast for FY24 has been set conservatively. On the other hand, because manufacturing capacity has contracted in line with the weak orders, in preparation for demand recovering, we have started increasing personnel and training employees.

The reason for the conservative FY24 forecast is that it is difficult to foresee the demand recovery in the United States during the first half as stated above. Other factors include our customer composition (many customers are regional telecommunications companies and Tier 2 & 3 companies that will create demand through subsidized projects) and delayed recovery in the South America carrier market (Recovery will likely occur later in South America than in North America).

Q: In the Functional Products business, thermal management products for AI are expected to be the driver of growth, but what is your manufacturing capacity, barriers to entry and superiority over competitors?

A : Our thermal management products are designed and developed in step with the customer's development. Because of this, we are able to capture customer demand at an early stage and customize our products, which is an advantage over other companies, as well as a barrier to entry. Concerning manufacturing capacity, based on the level of adoption of our next-generation products, we have plans to increase capacity as necessary.

Q: Concerning Automotive Products, what impact did the one-time factors have in FY23 Q4? Will there be a rebound back down in FY24?

A : In FY23 Q4, one-time revenue was received from customers as compensation for past expenses. Negotiations for this compensation were conducted throughout the year, and the payment was received at the timing approved by the customer.

The revenue was compensation for negative production and sales factors attributable to the customer, and our earnings capability will not be impaired even without this revenue.

In FY23, product compensation expenses were incurred, and as a result, they cancelled out the one-time revenue from customers.

In FY24, customer production plans will be stable, and the occurrence of negative factors attributable to the customer is expected to be limited.

Q: The overall image of operating income in FY24 is expected to be weighted 3:7 in H1 and H2. Has Q1 been challenging?

In Communications Solutions, what is the status of competition with competitors and how

quickly are the changes in the product mix occurring, including participation in data centers?

A : Many of our businesses, including Energy Infrastructure and Batteries, are normally weighted in the second half. Also, because it is difficult to foresee the recovery in Communications Solutions, Q1 is not expected to start at a very high level. Concerning Communications Solutions, the forecast for the first half is conservative, including for data centers, but the speed of the recovery is expected to be faster than forecast.

Q : Energy Infrastructure is forecast to achieve record high income in FY24. What factors are behind this forecast?

A : In addition to firm demand for extra-high voltage cable replacement in Japan, we expect to record the delays in the renewable energy submarine cable projects planned for FY23. Although record high profits are forecast in FY24, we view these results as a waypoint toward the future.

Q : Concerning Communications Solutions, OFS performed better than expected in Q4, but why is the forecast for FY24 worse than FY23 Q4 financial results times 4?

A : The financial results at OFS are gradually improving, but we still maintain a conservative outlook. This has been reflected in the forecast.

Q : Concerning thermal management products, what is your response for water cooled products and the status of communication with customers?

A : Currently, our products are mainly air cooled, but we are developing water cooled and liquid immersion products, and some of the products have progressed to the stage of evaluation and adoption by customers.

Q : In the FY24 forecast, you have set the exchange rate at JPY140, but assuming it remains at the current level of JPY155, what impact will it have on the financial results?

A : Based on the current foreign exchange sensitivity, income will increase by JPY 0.2-0.25 billion each time the yen weakens by JPY 1. If the discrepancy between the forecast and actual exchange rate is JPY 15, operating income will overperform by around JPY 3.5 billion. This is a rough estimate of the level of impact.

Q : I understand that the Functional Products business is growing, but why did operating income decrease in FY23 from Q3 to Q4?

A : Thermal management products were strong, but the recovery in the other products was incomplete. Tape for semiconductor process and memory disks are slowly starting to recover, and this trend will become more pronounced in FY24.

Q : Concerning the growth rate for optical fiber and cable volumes, what is the situation in each region?

Why did volumes in North America decrease more than the market average?

A : The growth rates based on optical fiber length are as follows.

•FY23 full-year actual volume compared to the previous year (FY22):

Overall: Slightly over (50)%. North America: (60)%. EMEA: Slightly over (50)%. Central and South America: Slightly over (10)%. Japan: +10%.

•FY24 forecast compared to last year (FY23):

Overall: +20%. North America: Slightly over +20%. Central and South America: Slightly less than +30%. EMEA: Slightly over +30%. Japan: Slightly over (10)%.

•FY23 Q4 (Jan-Mar) actual volume compared to the same period in the previous year (FY22 Q4):

Overall: +20%. North America: Slightly over +20%. Central and South America: Slightly less than +30%. EMEA: Slightly over +30%. Japan: Slightly over (10)%.

The reason North America volumes decreased more than the market average is due to our customer composition (many customers are Tier 2 & 3 companies and regional telecommunications companies).

Q : In the breakdown of changes in operating income in the FY24 forecast (p.16), what is included in the improvement effects of JPY 17.2 billion?

A : Improved productivity from increased operating levels will be around JPY 10.0 billion. Of this amount, Communications Solutions will account for half, with Automotive Products and other businesses accounting for the other half.

The elimination of the one-time product compensation expenses incurred in FY23 (Automotive Products and Energy Infrastructure) will be around JPY 4.0 billion.

Price optimization will be around JPY 3.0 billion. With this amount, we should be able to cover about half of the increased personnel expenses.

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