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

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Contents: FY2023 Q3 Financial Results

Speaker: **Akihiro Fukunaga**

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

Q：What do you feel is your actual operating income earning capability? Based on the forecast for H2, is it around JPY 20.0 billion for the full year?

A：Demand is returning, and orders are starting to be received. Based on annual operating income of JPY 20.0 billion, we intend to build on this figure by increasing sales and realizing improvement effects.

Q： The loss in the Communications Solutions business is expected to decrease in Q4 compared to Q3. What is behind this decrease? Is it the result of the recovery in the data center market?
Also, why was the full-year forecast revised down even further in the current forecast?

A：Regarding the factors behind the lower loss in Q4, in addition to Q3 being a slow period due to seasonal factors, the recovery was delayed longer than expected to due to weak demand. This is also a factor behind the downward revision to the full-year forecast.
Regarding data center related products, in addition to the market recovery, including orders for ultra-high count optical cable for connecting data centers, we have also made progress in developing the market, which has been an issue for us as a company.

Q：What merits will the BEAD (Broadband Equity Access and Deployment) program have for you as a company, and how much impact will the increased competition in areas outside of the BEAD program have on the business?

A：The details of BABA(Build America Buy America Act), which we had expected to come to a conclusion at the end of December last year, hasn't yet to be determined. Regarding OFS fibers, although there is a risk as some materials are imported from Europe, the view has been expressed that they will be exempted, and there is no change in this situation. Based on this assumption, we have already received inquiries related to BEAD program, which we

consider to be a positive factor for us at this point in time. The full-fledged realization of real demand is expected from the second half of the next fiscal year onward.
However, it is expected that foreign manufacturers of the general-purpose fiber used in BEAD projects will start production in the United States, so the benefits that we can enjoy from this program will likely be temporary. Also, because competition in areas outside of the BEAD program is expected to increase, as a company, we will shift to high value-added products and strive to achieve further differentiation.

Q: Concerning Communications Solutions business, is there a risk of increased losses following the application of the lower of cost or market method?

A: The application of the lower of cost or market method does not have a large monetary impact, but we recorded a write-off of over JPY 1.0 billion for non-moving inventory resulting from the weak demand. However, once demand returns, we will be able to recover this amount.

Q: What factors are behind the upward revision to the full-year forecast for the Automotive Products & Batteries business? Other companies have passed on past cost increases to their customers, leading to a one-time boost in profits. Is this one of the factors?

A: In the previous upward revision to the full-year forecast, we incorporated the risk of decreased vehicle production volumes by automobile manufacturers. In the current forecast, the results at the overseas related companies with a fiscal year ending in December are now clear and productivity has improved more than expected. Based on this, we will be able to cover the risk of operating volume fluctuations in Q4, resulting in the upward revision to the full-year forecast.
In regard to incorporating the higher costs in the sales price, we have been negotiating with customers since the last fiscal year, and although the benefits have crossed over into this fiscal year, on a average monetary basis, we were able to incorporate 70% of the higher costs the last fiscal year and almost 100% this fiscal year. The negotiations with customers remain ongoing.

Q: In the Functional Products segment, although profit levels were increasing every quarter, they are expected to fall in Q4 compared to Q3. What is behind this decline?

A: The Functional Products segment includes multiple businesses, and although demand continues to be weak overall, it is gradually recovering.
Within this business environment, the thermal management solution & products business is

strong on support from the active generative AI market and the actions taken to increase production capacity in response to this. In the copper foil business as well, AI-related orders are increasing. Because many customers in this segment adopt a fiscal year ending in December, Q4 corresponds to the start of the year for these companies, so the profit levels have been set conservatively.

Q：Concerning inventories, what increased in Q3, and how will inventories be reduced in Q4?

A：One factor behind the current increase in inventories is the longer lead times resulting from the semiconductor shortage. Past orders received with delivery times 1.5 – 2 years in the future are being delivered now, but demand has not recovered to the level forecast at that time.
Also, there have been delays to large power cable projects (delayed until next fiscal year).
In the Automotive Products business, following increased production, inventory was added ahead of Chinese New Year and the Vietnamese New Year (Tet) Holiday, and this inventory will be reduced in Q4.
Also, given the strong orders for thermal management solutions & products, inventory was temporarily increased, but it is expected to return to normal levels by the end of the fiscal year.
The impact of foreign currency exchange and copper price is JPY 7.3 billion, although there is a risk this impact will increase if the yen weakens further, we plan to reduce total inventory by JPY 10.0 billion by the end of the fiscal year.

Q：How are the improvements progressing at the optical fiber and cable manufacturing site in the United States?

A：Steady improvements are being achieved, but concerning the overall image of optimizing of a production system, I would like to discuss this topic at a later date.

Q：In the breakdown of changes in operating income on page 8, you expect improvement effects of JPY 11.0 billion. Where will these improvements come from? Will you continue to have room to increase profits through internal efforts in the next fiscal year?

A：The largest improvement effect will be incorporating the higher costs in the sales price totaling about JPY 8.0 billion, and the remainder will be from productivity improvements. On the other hand, the impact of the write-off for non-moving inventory in the optical fiber and cable business is slightly over JPY (1.0) billion. Product compensation costs in the power cable

and automotive products business of about JPY (2.0) billion have been incurred. In addition, tax benefits in Brazil will decrease by over JPY (1.5) billion. The improvement effects will cover these negative factors to generate overall improvement of JPY 11.0 billion.
We will work to further improve productivity in the next fiscal year. The price revisions will decline if the factors for higher costs settle down, but based on the keyword "sales price optimization", we will shift to high value-added products and strive to increase profits.

Q: Currently CAPEX exceeds depreciation expenses, and the D/E ratio is deteriorating. Because these are also investments in future growth, it is difficult to find a good balance, but how will you control CAPEX?

A: Of the current CAPEX, about JPY 5.0 billion is for DX and the environment. A similar amount is for maintenance and renewal, and the remaining budget is for investments in new and increased production.
Taking a closer look, investments will have to remain at the current level as business continuity will be affected. Going forward, we will limit CAPEX, but it will likely continue at a level exceeding depreciation expense for a while.
In response, we will work to effectively utilize assets and increase return on investments, including the sale of cross-shareholdings, as well as shorten the cash conversion cycle, increase profits and improve our ability to generate cash.

Q: Recently, you sold shares in an overseas affiliate, but the company continues to be an equity method affiliate. What factors were behind the sale of shares?
Also, what is your policy for shareholdings of other listed subsidiaries? Do you intend to actively sell such shares?

A: Regarding the recent sale of shares, we have business synergies with the relevant affiliate, and there were determined to be merits to us of keeping this company an equity method affiliate. On the other hand, the company's share price has reached a high level, and from the perspective of increasing asset efficiency and improving our balance sheet, it was decided to sell shares to an extent that the company remains an equity method affiliate.
Regarding the sale of shares of listed subsidiaries and equity method affiliates, there is no change to our policy of selling shares of companies with which we have no business synergies. Also, from the standpoint of securing funds for investing in growth domains, we will continue to sell shares when the timing is right.

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