Q&A Summary of the IR Business Briefing of Furukawa Electric Co., Ltd.

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Contents: Automotive Systems

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Q: From the start of the previous medium-term management plan through FY2025, I believe the Automotive Products business was able to secure stable, strong profits while facing impacts such as the semiconductor shortage. Could you provide a summary of the factors behind this, as well as a summary of the overall performance during medium-term management plan period, particularly including the components business?

A: There were two main factors behind why we achieved strong profits in FY2024–FY2025.

The first was improved productivity through an increased responsiveness to order volatility, while actual orders were more stable, along with a large reduction in high-cost items such as air freight. The second was the agreements reached from around 2024 concerning a framework for incorporating the impact of foreign exchange and higher raw material and labor costs in the sales price following several years of negotiations with customers, and this enabled us to appropriately reflect these costs in sales prices.

These factors contributed to boosting profit, and they are also the primary factors when summarizing the medium-term management plan.

Q: Specifically, what are the main benefits of automating wire harness manufacturing? What impact will these benefits have on productivity and personnel, and how will it be reflected in the sales price? Also, profits appear to be flat despite promoting automation, but what are your thoughts about this?

A: The main objective of automation is not simply to reduce costs. Rather, it has been positioned as a method for realizing local production for local consumption. We are preparing a foundation for manufacturing products in Japan at the same cost level as products manufactured in Southeast Asia, and we are working to address business continuity through this, rather than boosting profit. For this reason, investments are expected to be necessary for promoting local production for local consumption and lead-time reduction. Although this will temporarily depress profit, there is no change to the profit base, and profit levels are expected to recover.

Q: Concerning sales and orders, have there been any changes recently, including the trends in the shift to EVs?

A: We are able to foresee orders for the next 2 to 3 years, and there are no major changes. Due to delays in the shift to EVs, sales of some high-voltage products are expected to decline, but it will be possible to supplement this by securing the increased demand for gasoline cars and hybrid vehicles, which customers are focusing on in place of EVs. Overall, we do not expect any issue with sales.

Q: While high-voltage products and components are expanding on the foundation of the low-voltage harness business, growth in sales and profits appears to be limited. How do you view the growth strategy for this business?

A: Sales targets for 2030 are supported by existing orders, and there is room to increase sales above the plan due to stronger demand for gasoline vehicles. On the other hand, profits are expected to temporarily decline from 2026 to 2028 as a result of upfront investments, but we expect to enter a recovery phase of these investments by 2030, returning to a level comparable to FY2025 as these investments begin to pay off. In addition, new products and new fields are expected to be added to the business toward 2035, and we anticipate around 20% revenue growth.

Q: Is there any room to further improve profitability through actions such as price adjustments?

A: The shift to aluminum itself will not directly lead to higher profit margins; however, it is expected to enhance overall profitability through increased orders for aluminum wire harnesses. In addition, high-voltage products are characterized by relatively low labor and transportation costs and strong resistance to cost fluctuations, which will contribute to more stable profitability. Furthermore, while new products will require upfront development investments, they are expected to achieve higher margins after commercialization and will serve as a driver of profitability improvement over the medium to long term.

Q: How has the increased adoption of products including aluminum wire harnesses and BSS been progressing, and what is the future outlook?

A: Aluminum wire harnesses are being steadily adopted in vehicles where they have been specified. In addition to the corrosion-proof terminals already introduced in the market, the development of high-durability wire has resolved previous challenges, and aluminum wiring for in-cabin applications is expected to become feasible by 2035.

Meanwhile, BSS and radar are currently being explored for new applications; however, their full-scale contribution to sales is expected to materialize after 2030.

Q: Concerning the expansion into global OEMs for SRC and high-voltage products, are there any changes to your regional strategies and changes in the customer base?

A: Concerning SRC, we are targeting India and Europe. Leveraging our existing site in India will make it easier to capture the demand from Japanese OEMs as the market expands and enable us to increase sales while limiting additional investments. In Europe, where our share is low, there is significant room for expansion. Accordingly, we will leverage our existing locations to increase sales without a substantial increase in fixed costs.

Q: Are your efforts to target the European market for SRC driven by compatibility with customers' product development and relationships with existing customers?

A: Although we possess existing locations and customer touchpoints in Europe, the primary reason is that our share among European customers remains limited currently, leaving significant room for growth. Therefore, we view this market as an area for capturing new customers by leveraging our global competitiveness.

Q: How will expanding the customer base by cultivating overseas OEMs lead to improved capital efficiency and profit margins?

A: Rather than significantly increasing margins on individual products, it will enhance fixed-cost efficiency by leveraging existing resources to drive sales growth, thereby improving overall profit margins.

Q: Concerning the improved profit margins from the shift to aluminum and high value-added products, what impact will this have on profitability through 2030?

A: We will work to receive recognition for the value offered by our individual products including high-durability aluminum wire and corrosion-proof terminals, and reflect this value in the price, but these components account for only a limited share of the overall wire harness. Therefore, rather than significantly boosting the profit margin of the overall business, we will leverage these high value-added products to improve fixed-cost efficiency by expanding sales volume, leading to higher overall profit margins.

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