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

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Contents: Optical Solutions

Speakers:

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Observer:

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Q: Regarding the investment policy for expanding optical fiber production capacity, at the time of briefing 2030 management policy, the Company said it was still under consideration. This time, however, the policy appears to be more consistent. We understand that optical fiber production is already running at full capacity. Please explain in more detail your thinking on investments to address future demand.

A: Optical fiber production is currently running at full capacity. We recognize that expanding cable production capacity further will require an increase in fiber capacity. The investment scale and the approach by location are in the final stage of review. We are moving forward with plans to increase capacity and intend to explain the scale and other details in the not-too-distant future.

Q: Regarding pre-connectorized cables, I believe the previous explanation was that orders from major customers were still limited. Does the current sales expansion policy have a concrete basis or visibility?

A: Discussions are progressing with multiple major hyperscalers, and deliveries have already started for some customers. Sales expansion in North and South America has begun to move forward. Meanwhile, ultra-high-fiber-count pre-connectorized cables are still at the development and certification stage. We intend to expand sales while strengthening the product portfolio going forward.

Q: If sales of pre-connectorized cables expand, can we expect a significant improvement in profitability, as seen at other companies? Given the current structure, which appears to involve the use of external partners, should we view the profitability improvement as limited to that extent?

A: Although a simple comparison with other companies is difficult, we maintain a certain level of in-house capability while complementing any shortfalls through partners. We therefore expect profitability to improve compared with the conventional sale of standalone cables.

Q: Please explain the Company's position and outlook for hollow-core fiber and multi-core fiber. In particular, I view hollow-core fiber as a technology that could help address power consumption and transmission-loss challenges in data centers.

A: For hollow-core fiber, we have long-supported products based on a different design, and for data center applications we are conducting demonstrations and testing using our internally designed product. We are targeting commercialization in FY2027. For multi-core fiber, we expect initial deployment in submarine applications. For terrestrial applications, a more complex ecosystem than that required for standard fiber will be necessary, and we are working with various players to build the required infrastructure.

Q: Regarding the timing of commercialization for hollow-core fiber, I recall that the initial explanation referred to around 2030. Should we understand the current explanation of 2027 as an acceleration of the timeline?

A: We expect to start manufacturing in FY2027.

Q: Please explain why sales are expected to grow from FY2026 through FY2028, while operating income appears to grow more moderately.

A: Through FY2028, we assume that both fiber and cable operations will remain at high utilization levels and that we will make maximum use of existing capacity. Within that framework, we aim to improve profitability through a higher ratio of products for data centers, a higher ratio of rollable ribbon cables, increased production of connector products, and a shift toward pre-connectorized cables. However, because production capacity itself is not expected to increase significantly through FY2028, profit growth is also expected to remain within a certain range.

Q: Will the increase in the data center ratio and the expansion of rollable ribbon cable capacity lead to further increases in average unit prices and profitability?

A: A higher ratio of products for data centers, rollable ribbon cables, connectors, and pre-connectorized cables is expected to contribute to improved profitability. However, through FY2028, improvement will mainly be based on existing capacity. The full benefits of investment in significantly higher production volume, if we invest in optical fiber, are expected to appear from FY2029 onward.

Q: If the impact of capacity expansion emerges from FY2029 onward, is there room for the profit level in 2030 to exceed the current assumptions?

A: Depending on the scale of capacity expansion and the extent to which we can address markets where we believe we have strengths, we believe it is possible to achieve profits above the level currently assumed for 2030.

Q: In increasing the ratio of products for data centers, is the constraint on the capacity side or on the demand side?

A: While we will focus on the data center market, our policy is to continue supplying other markets, including telecom, specialty fiber, and BEAD-related demand. Therefore, rather than shifting entirely to data centers, we intend to raise the data center ratio to around 60% or more within the overall mix. Maintaining supply to other markets is one constraint on the ratio.

Q: What is the Company's competitive advantage in expanding sales of pre-connectorized cables?

A: We have technologies related to fiber, cables, and connectors, and we believe this gives us a competitive advantage over companies that only perform processing. However, the key challenge is securing sufficient supply capacity, and we are currently working to establish the necessary structure.

Q: Are the connectors used in pre-connectorized cables manufactured in-house or externally procured?

A: Ferrules are produced in-house, while the connectors themselves are generally procured from partners.

Q: Does the structure of externally procuring connectors put the Company at a disadvantage in winning orders?

A: We recognize that the biggest challenge is not the procurement structure itself, but how to respond to the required level of supply capacity.

Q: Please explain specifically which processes are bottlenecks among optical fiber, rollable ribbon, and cabling, and how each area will be expanded. Please also clarify the difference between expansion through FY2028 and expansion from FY2029 onward.

A: It will be difficult to significantly increase fiber capacity by FY2028, while there is room to increase capacity on the cable side for rollable ribbon cables. Therefore, in the near term, we plan to expand cable capacity and redirect standard fiber that had previously been sold externally to our own cables, particularly rollable ribbon cables, in order to increase sales. In other words, through FY2028, expansion will mainly focus on the cable side, while a significant increase in overall fiber production capacity will be a theme for the period thereafter.

Q: Is it correct to understand that, unlike some other companies, the Company basically handles the fiber preform and drawing processes in-house rather than outsourcing part of them?

A: As a basic policy, we intend to handle both fiber and cable production in-house.

Q: Is it correct to understand that capacity expansion other than the rollable ribbon process explained this time remains under consideration going forward?

A: As cable production increases, a shortage of fiber will arise. We are therefore currently considering capacity expansion for cable and fiber as a set.

Q: How should we view fiber demand outside data centers as sales grow? In particular, please explain your thinking on growth in specialty fiber and other applications.

A: For standard single-mode fiber, we will reduce external sales and redirect supply to our own cables. Meanwhile, for specialty fiber, we expect increased demand for submarine dedicated fiber, EDF, and other products, partly due to the expansion of the data center market, and we are already expanding capacity. Even if volume growth is not large, we position these products as capable of making a certain contribution to profitability.

Q: Will areas outside data centers also grow across the board, or is the assumption that the ratio of some areas will decline?

A: We assume a decline in telecom-related sales. Within telecom, we will actively capture BEAD-related demand, while reducing the ratio of loose-tube cables for non-BEAD applications.

Q: What scale of capacity expansion investment is being considered for the integrated expansion of fiber and cable?

A: We plan to increase rollable ribbon cable production capacity to two to three times the FY2025 level. We also plan to expand fiber capacity, including preform and drawing processes, to match that cable capacity.

Q: Will investment in preforms be necessary?

A: For preforms as well as fiber, we are considering options, including new locations.

Q: Where are you assuming the capacity expansion investments will be implemented?

A: For cables, we are assuming three locations: North America, Japan, and Brazil. For fiber, we are considering capacity expansion investments while balancing multiple existing locations.

Q: If the investment mainly involves adding lines at existing plants, is it correct to understand that ROIC is likely to be high?

A: For cables, we aim to expand production while keeping investment amounts under control by utilizing existing areas rather than constructing new plants. On the other hand, fiber will require capacity expansion of a certain scale, so we are also considering the construction of new buildings. The nature of the investment therefore differs between cable and fiber.

Q: How do you view the sustainability of demand for AI data center investments? Also, please explain the triggers for potential adjustment risk and your countermeasures.

A: We view demand as strong through 2030. At the same time, based on past market fluctuations, we intend to make investment decisions sequentially on the premise of long-term contracts and medium-to long-term volume commitments with customers. If market conditions change significantly, we will make prompt decisions, including reducing the scale of investment or suspending investment midway, in order to mitigate demand fluctuation risk.

Q: What is the basis for your view that demand will continue through 2030?

A: This view is based on our direct dialogue with customers, including hyperscalers, through which we feel that demand in the data center market remains extremely strong.

Q: In your dialogue with customers, have you heard any comments suggesting that investment is excessive?

A: We have not heard such comments.

Q: Is there a difference in profitability between BEAD-related demand and conventional telecom demand?

A: For loose-tube cables, we will respond while also utilizing overseas locations, and we will redirect fiber allocation toward data center and BEAD-related applications. In terms of profitability, we expect improvement through an increase in the ratio of higher-value-added products for data centers. For BEAD as well, we will respond in a way that enables us to secure sufficient profitability.

Q: Please explain specifically the products or areas on which the Company is particularly focused for intra-data center connectivity.

A: With the launch of Lightera, in addition to the data center interconnect area where we have traditionally had strengths, we are now able to offer comprehensive proposals within data centers as well. Areas of focus include polarization-maintaining fiber, for which demand is expected to grow as Co-Packaged Optics expands; ultra-compact ferrules; ultra-high-fiber-count cables; and distribution frames and related products that support high-density connectivity. We intend to combine these products and offer them as package solutions for intra-data center applications.

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