

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

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Contents: FY2024 Q3 Financial Results

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

Q : In the Communications Solutions business, how do you view the telecom market business environment, including BEAD?

A : Our view of the North America telecom market is that business environment has not changed much from Q2. It has been recovering since bottoming in FY2023 Q3, and although the inventory adjustments are progressing, some customers still have high inventory levels. BEAD demand will also begin from the second half of FY2025, and the market is expected to undergo a full-scale recovery in FY2026. There are concerns of reduced investments in BEAD under the new US administration, but the current government maintains the same stance toward improving the rural network environment. Going forward, we will carefully assess the status of orders while catching the latest information, including revisions to the budget. However, we do not expect it to have a negative impact on the business environment.

Q : Concerning the Functional Products business, operating profit declined slightly from Q2 to Q3, and it is expected to decline further in Q4. What is behind this decline? Also, concerning thermal management products, I have heard inventories have increased at Taiwanese companies. Has demand fallen?

A : The business continued to be strong from Q2 into Q3, but due to minor inventory adjustments in tape for semiconductor process, operating profit declined slightly in Q3. The factors behind operating profit declining from JPY 4.2 billion to JPY 2.9 billion from Q3 to Q4 are: ①The foreign exchange rate assumption has been revised to JPY 150, which is a slightly stronger yen compared to Q3 on a quarterly basis, ② Many customers for thermal management products and aluminum blanks for HDD have a fiscal year ending in December, and because Q4 aligns with the start of the new fiscal year at these companies, it is usually a slow start, and ③Winter is the slow season for project demand for functional plastic products. Factors ① and ② account for about half of the decline, and ③ accounts for the other half. Demand for our thermal management products continues to be strong.

Q : One of the factors behind the upward revision to the Automotive Products business is “revised assumption of business environment risks”, but what specifically does this mean?

Also, what is your outlook for margin and sales growth and transferring the higher costs to the customer?

A : Concerning the higher costs for overseas production due to foreign exchange and increased labor expenses, negotiations with customers are continuing in the second half, and the results of these negotiations have been incorporated into the outlook. Next fiscal year is not guaranteed, but regarding cost-worthy products, we will continue the efforts aimed at transferring the higher costs to the customer.

There are variations in production volumes depending on the region, but overall, automobile production volumes at our customers are expected to remain unchanged next fiscal year. After accumulating positive benefits including increased productivity, we will announce the figures in May.

Q : What is your target for overall margins in the Automotive Products business excluding the batteries business? How large of an impact will tariffs have?

A : Margins (operating profit margin on sales) will be relatively unchanged in the batteries and Automotive Products businesses. Operating profit will likely be around JPY 20.0 billion based on this year's operating profit forecast minus The Furukawa Battery Co., Ltd.'s announced operating profit of JPY 4.0 billion.

Concerning tariffs, 75% of sales in the Automotive Products business are from wire harnesses, and of these sales, 20-30% are for the US. About 25% of wire harnesses for the US are manufactured in Mexico, and the rest are manufactured in Southeast Asia. We intend to shift any higher costs due to tariffs to the customer, but because we have already prepared a bridge production system, we may consider transferring production in the event it is difficult to shift the costs to the customer.

Q : Is the upward revision to the Energy Infrastructure business simply the result of projects being moved forward? Can you provide more details?

A : In addition to the timing of projects of Japan extra-high voltage underground cables being moved forward, we received acceptance from the customer for increased costs incurred due to the design changes. Concerning functional power cable and transmission and distribution components, the market environment (for mainly construction wholesalers) is strong, and spot project orders were received in Q3. These factors account for about each half of the upward revision. The spot project orders for construction wholesalers received in Q3 are expected to level out in Q4.

Q : In the Communications Solutions business, what are the factors behind the loss improving from JPY ▲1.8 billion in Q2 to JPY ▲0.2 billion in Q3? I understand you expect to breakeven in Q4, but given the fact that Broadband Solutions and other businesses are weighted toward

the end of the fiscal year, shouldn't you be able to generate a slight profit?

Also, how do you expect to achieve the operating profit target of JPY 11.5 billion set in the 2025 Medium-Term Management Plan (2025 Mid-term Plan)?

A : Concerning the breakdown from Q2 to Q3, data center sales increased by about JPY 1.0 billion, and improvement in the North America optical cable market and resulting productivity improvements accounted for about JPY 0.5 billion. Given that the figures in the full-year forecast have been rounded to around JPY 0.5-1.0 billion, Q4 will breakeven. However, we should be able to generate a slight profit. Also, we are preparing to consolidate Hakusan Inc., and because this consolidation has not yet been incorporated into the current forecast, it should have a positive impact.

Concerning the target for FY2025, the efforts to increase production capacity of the main data center products are steadily progressing, and this will likely lead to increased sales. Also, telecom demand is recovering, and although it is planned to incorporate BEAD demand in the second half, we will announce the specific figures in May after assessing the impact of tariffs. We intend to eliminate the losses and breakeven in FY2024 Q4, so we should be able to realize a profitable start in FY2025.

Q : In the Communications Solutions business, I understand the quarterly improvements have been progressing in line with the plan, but I believe the situation is changing, including the external environment such as foreign exchange. Is the business within shot of becoming profitable on a monthly basis? Do you expect a strong start to FY2025 for optical fiber and cable products and optical components? Please explain each.

A : For optical components, demand recovery for ITLA (for telecom) is not strong yet. Efforts are steadily progressing to increase production capacity of DFB laser chips for data centers, and against the goal of increasing production by 5 times in FY2025 compared to FY2023, we have already increased production by 2.5 times this year. There is expected to be a similar increase from FY2024 to FY2025 as achieved from FY2023 to FY2024.

For optical fiber and cable products, the efforts to increase production capacity of rollable ribbon cable (double production in FY2025 compared to FY2023) have almost been fully completed in FY2024, and we expect manufacturing to be carried out at full capacity from the second half of FY2025. Concerning MT ferrules, the increases to production capacity are nearing completion. Concerning the production system of OFS, in preparation for the start of BEAD demand, we are strengthening hiring, establishment and training.

Q : Concerning the forecast for next year compared to the target set in the 2025 Mid-term Plan, can you provide any hints on how the forecast will be set? In particular, what is your outlook for Communications Solutions, Automotive Products and Functional Products businesses?

A : The 2025 Mid-term Plan target includes the contributions from TOTOKU ELECTRIC CO., LTD. and The Furukawa Battery Co., Ltd. The key point will be to what extent the remaining businesses can cover these contributions.

The 2025 Mid-term Plan target for Functional Products business includes the deconsolidated TOTOKU ELECTRIC CO., LTD., and the forecast for next year will be lower by that amount. However, the strong data center products will provide a boost. Also, the increased production from the new tape for semiconductor process plant built through a JPY 7.0 billion investment will start operating in FY2025 and have a positive impact.

In the Automotive Products & Batteries business, although profits are expected to decline by JPY ▲ 4.0 billion due to the deconsolidation of The Furukawa Battery Co., Ltd., the forecast operating profit of JPY 22.0 billion this year already exceeds the 2025 Mid-term Plan target of JPY 16.5 billion. We will see to what extent we can increase profits next year after incorporating the factors including tariffs and productivity improvements.

In the Communications Solutions business, it is difficult to discuss the envisioned recovery quantitatively at this time. At the very least, we will work to breakeven next year, and we will see to what extent we can accumulate profits. As answered earlier, data center sales are expected to increase, telecom demand will recover and BEAD demand will begin in the second half of next year. There should also be benefits realized from the reorganization.

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