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

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Contents: FY2026Q1 Financial Results

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Q: Regarding Optical Solutions and Digital Infrastructure Components, which recorded significant upward revisions to their earnings forecasts, what factors are driving the increase in profits for major products such as optical fiber, DFB laser chips, and water-cooling products in terms of volume, pricing, and product mix? In addition, please explain the situation for the first half and second half separately, as well as compared with the first quarter of the previous fiscal year.

A: In the latest forecast revision, full-year forecasts were revised upward mainly for Optical Solutions and Digital Infrastructure Components.

For Optical Solutions, compared with the previous forecast, the full-year forecast was revised upward by JPY 25.0 billion in net sales and JPY 16.0 billion in operating profit.

For the first half, based on first-quarter results, improvements in selling prices and product mix were incorporated into both net sales and profit forecasts. The upward revision in operating profit includes approximately JPY 3.5 billion in the first half and approximately JPY 5.5 billion in the second half from increased sales to data centers, product mix improvements, and pricing revisions. In the second half, the impact is expected to expand further than in the first half, including contributions from increased sales of Rollable Ribbon Cable. Pricing factors are estimated to account for nearly half of the full-year profit improvement.

For specialty fiber, profit contributions are increasing, including products for submarine transmission line applications. Compared with the previous forecast, the positive variance amounts to approximately JPY 2.5 billion in the first half, approximately JPY 2.0 billion in the second half, and approximately JPY 4.5 billion for the full year. The primary driver is increased volume rather than pricing.

For MT ferrules, in addition to the effects of capacity expansion, sales in the first quarter exceeded expectations. Compared with the previous forecast, the positive variance amounts to approximately JPY 1.5 billion in the first half, approximately JPY 1.0 billion in the second half, and approximately JPY 2.5 billion for the full year. The primary factor is the effect of increased production capacity.

For Digital Infrastructure Components, operating profit was revised upward by JPY 12.0 billion for the full year.

Approximately JPY 5.5 billion of the revision relates to laser chip products, including DFB laser chips and SOA. The primary factor is increased production capacity rather than selling price increases.

For copper foil, operating profit was revised upward by approximately JPY 2.5 billion for the full year, mainly reflecting a more favorable product mix toward high-performance copper foil driven by demand from AI data centers. It should be noted that this forecast revision does not newly reflect an upward revision in water-cooling products, but is attributable primarily to DFB laser chips and copper foil.

Compared with the first quarter of the previous fiscal year, operating profit in Optical Solutions improved by approximately JPY 10.0 billion, from a loss of JPY 0.7 billion to a profit of JPY 9.2 billion. The major factors were approximately JPY 6.0 billion from higher sales prices, improved product mix, and higher sales volume for data center-related products, approximately JPY 3.0 billion from specialty fiber, and approximately JPY 1.5 billion from MT ferrules.

In Digital Infrastructure Components, cooling products were a negative factor of approximately JPY 2.0 billion due to a reactionary decline following last-minute demand for air-cooling products in the first quarter of the previous fiscal year. On the other hand, laser-related products such as DFB laser chips contributed approximately JPY 2.0 billion, while copper foil contributed approximately JPY 1.5 billion. In addition, demand related to air conditioners, functional plastics, and tapes for semiconductor process applications contributed approximately JPY 1.5 billion in total profit growth. These positive factors more than offset the decline in cooling products.

Q: Please reconfirm the schedule from the production ramp-up of water-cooling products to their expected profit contribution.

A: Production of water-cooling products began in June, and the ramp-up is progressing smoothly.

Full-scale profit contribution is still expected in the second half, unchanged from the outlook announced in May. A modest profit contribution is also expected in the second quarter, with contributions gradually increasing from the third quarter through the fourth quarter. The assumption of approximately JPY 18.0 billion in profit growth from cooling products in the second half remains unchanged.

Q: Regarding capacity constraints for optical fiber and cable products, is there room to respond by reallocating sales from telecom applications to data center applications? Please explain the bottlenecks, utilization rates, production mix, and product composition for data center applications until capacity expansion is completed between 2027 and 2028. Also, please discuss demand for laser-related products such as DFB laser chips, supply capabilities, and the Company's market position.

A: At present, optical fiber production is operating close to its maximum capacity relative to demand. The bottleneck is optical fiber itself, and the Company is focusing on converting fiber into high-value-added cables rather than selling fiber externally.

With respect to Rollable Ribbon Cable, production capacity is available throughout the fiscal year. There remains room to increase production toward the fourth quarter. The Company aims to double Rollable Ribbon Cable production capacity from the second half of FY2028 onward. Until then, it plans to respond through changes in production mix and pricing revisions.

Demand for DFB laser chips remains extremely strong, and production capacity has been expanded to more than five times the FY2023 level. The Company also intends to optimize the product mix toward higher-margin products such as SOA to enhance profit contributions.

Q: How will the JPY 100 billion capacity expansion be implemented by region and production site? Will all sites be expanded simultaneously by 2028?

A: Detailed investment amounts by site are not disclosed. For optical fiber, production capacity will be expanded at one or more of the four locations announced previously.

Rollable Ribbon Cable is currently produced in Japan, Brazil, and the United States, and investments will be made at these sites. While timing may vary by location, the Company intends to proceed with ramp-up activities in parallel as much as possible.

Q: Does the JPY 100 billion investment in optical fiber and cable cover the entire process from preforms through fiber drawing? How much additional preform and fiber capacity will be added? Why is the ramp-up schedule through the second half of FY2028 relatively short? Also, please discuss purchase commitment coverage ratios, contract duration, and pricing formulas.

A: The investment covers processes ranging from preform through fiber drawing. Capacity is being planned to support a doubling of Rollable Ribbon Cable production capacity, based on the required fiber volume.

The relatively short ramp-up period reflects the fact that the project will be implemented at four existing sites with manufacturing experience, operational know-how, and experienced engineers.

The Company declines to comment on specific contract terms, coverage ratios, contract duration, or pricing formulas associated with purchase commitments due to agreements with customers. However, the investment was disclosed because the Company concluded that there is a high degree of certainty that customers will purchase a certain volume over the long term.

Q: The operating profit margin of Optical Solutions reaches 16% under the revised plan. Is there still room to further enhance profitability through additional price increases and a greater shift toward Rollable Ribbon Cable? Please also discuss the progress and effectiveness of pricing actions.

A: Price negotiations are continuing toward the fourth quarter, and there remains room for additional increases. The results of ongoing negotiations have not been incorporated into the current forecast and will be reflected once visibility improves.

The price increases incorporated into the latest forecast revision reflect the pass-through of higher optical fiber prices to overall optical cable pricing, including Rollable Ribbon Cable.

Q: Is the reason for the relatively rapid ramp-up of the capacity expansion that equipment will be installed in existing buildings?

A: The explanation is not simply that all equipment will be installed in existing buildings. Rather, each site already has personnel with manufacturing and operational experience, as well as engineers whose expertise can be leveraged. As a result, the Company believes the ramp-up can be completed more quickly than a typical greenfield project.

Q: Will the capacity expansion, including preforms, come on stream from the second half of FY2028? Regarding the purchase commitments, to the extent possible, could you comment on whether they relate to data center or telecom applications, whether they involve a single customer or multiple customers, whether they include upfront payments, and what level of volume is covered?

A: The additional fiber production capacity is planned to come on stream in the second half of FY2028. Regarding the purchase commitments, the Company declines to comment on whether they relate to data center or telecom applications, the number of customers involved, the existence of upfront payments, or the coverage ratio, due to agreements with customers. However, the Company intends to make investments only after securing a certain level of visibility on future volumes, thereby reducing business risk.

Q: Regarding pricing revisions in Optical Solutions, does the forecast assume additional price increases from the first quarter to the second quarter and into the second half of the fiscal year? Does it also include the impact of future negotiations?

A: The current forecast incorporates only those pricing revisions that were visible as of the first quarter. The resulting pricing benefit is reflected in both the first half and second half of the fiscal year.
Additional pricing revisions that remain under negotiation have not been incorporated into the forecast. They will be reflected in future forecasts once sufficient visibility has been obtained.

Q: By around 2028, other manufacturers both in Japan and overseas may also increase optical fiber production, while capacity expansions for fiber and chips may progress in China as well. Including the possibility that demand related to drone applications may moderate, how does the Company view the supply-demand balance after 2028 and competition with Chinese manufacturers? Can the Company maintain its competitiveness in devices as well?

A: The Company believes that market demand remains extremely strong, and that many industry participants are currently evaluating expansion measures. While increased supply from China and other sources is anticipated, the Company believes that significant barriers to entry remain in the U.S. markets, making a rapid influx of such products unlikely.
The Company's strategy is not to maximize external sales of optical fiber itself, but rather to process fiber into cable products for sale. The current capacity expansion is likewise intended to increase the fiber capacity required to manufacture cables, thereby reducing business risk to a certain extent.
With respect to devices, the Company believes that it can maintain its competitive position based on its existing technological and market strengths.

Q: There have been reports that the U.S. government may restrict imports of Chinese-made transceivers and optical components. Could this create business opportunities for the Company's transceiverrelated businesses or other operations?

A: As only a short period of time has passed since these reports emerged, the Company is currently prioritizing information gathering.

Chinese manufacturers are believed to hold a significant share of the data center module market. If imports into the United States were restricted immediately, it would be difficult to secure alternative suppliers within a short period of time. There is therefore a possibility that the overall deployment of data centers could be delayed.

At this stage, the Company does not intend to rush into specific actions but will continue monitoring developments and gathering information.

Q: For DFB laser chips and MT ferrules, please explain the increase in shipment volumes from the fourth quarter to the first quarter and the expected volume growth for the full year.

A: DFB laser chip production capacity had expanded to approximately five times the FY2023 level by the end of the first half of FY2025. In FY2026, the Company is pursuing further capacity expansion to increase production capacity by an additional 1.5 times compared with FY2025. Shipment volume of DFB laser chips in the first quarter was approximately 1.3 times that of the fourth quarter of the previous fiscal year.

For MT ferrules, production capacity had likewise expanded to approximately five times the FY2023 level by the end of the first half of FY2025. In FY2026, the Company plans to gradually increase production volumes through yield improvements and the introduction of certain equipment. Specific shipment growth from the fourth quarter to the first quarter is not disclosed.

Q: Is the profit increase from specialty fiber products, including those used in submarine transmission line applications, driven by project-specific factors? Can continued growth be expected from next fiscal year onward? Is there still room for further capacity expansion? Also, please comment on the certification status of pre-terminated cable products and their contribution to the latest upward forecast revision.

A: The Company expects the submarine network market to continue growing over the next three to five years. It has also been expanding capacity, and the benefits of increased production have begun to materialize from FY2025 through FY2026.

The reason operating profit from specialty fiber was revised upward by approximately JPY 4.5 billion for the full year compared with the previous forecast is that both the benefits of increased production and the sustainability of demand have become more evident. The production capacity expansions currently being implemented in FY2026 are expected to contribute on a full-year basis from FY2027 onward.

For pre-terminated cable products, certification has been obtained for certain lower-fiber-count products. On the other hand, certification efforts for higher-fiber-count products, which are expected to generate greater profit contributions, are still ongoing. No contributions from such products have been incorporated into the current earnings forecast.

Q: Although there are views that the ramp-up of water-cooling module-related products may be taking longer than expected, should investors assume that the Company remains confident and expects meaningful profit contributions beginning in the second half as originally planned?

A: Production of water-cooling modules began in June. The Company plans to expand production from the second quarter through the fourth quarter, with profit contributions expected to increase significantly from the third quarter through the fourth quarter.

There has been no change to the plan, and the Company has not heard of any changes in customer demand. Operations remain on track with the original plan.

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