

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

Date: November 9, 2023 (Thursday) 17:30-18:30

Contents: FY2023 Q2 Financial Results

Speakers: **Hideya Moridaira**, President

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

Q: How do you view the market disruption and recovery in the telecommunications market in the United States?

According to the BABA (Build America Buy America) Act, the ability to produce the fiber within the United States is likely an advantage over other companies, but how do you foresee the impact?

A: No conclusion has yet been reached on the application of the BABA Act, but our optical fiber should comply with this act. This will put us at an advantage over companies that import fiber from outside the US. Going forward, we will consider our response, including supplying to customers and also to our competitors who want to procure US-made optical fiber for the BEAD (Broadband Equity Access and Deployment) program.

The market recovery will likely occur from the second half of FY2024 when the BEAD program will start, but it could occur earlier. We expect the BEAD program to accelerate the market recovery.

On the other hand, competition will intensify for the products exempt from the BEAD program, which will likely strengthen the downward pressure on prices. Given this, we will remain attentive to the market trends going forward.

Q: What is the ratio of BEAD-related sales in the US optical fiber & cable market?

A: It is said that about 20-30% of the entire market is BEAD related, but this may change going forward due to the current market downturn and trends among the other companies.

Q: In the AI and data center markets, what is the status of the businesses other than optical fiber & cable, such as optical devices, functional products and electronic components?

A: In relation to AI and data centers, DFB chips used for silicon photonics are gradually starting to move as the inventory adjustments progress. Also, demand for heat dissipation

and cooling products, such as heat pipes and heat sinks, is strong, and this demand is expected to remain ongoing for a while. Concerning copper foil, too, AI-related demand is growing.

Q: What is the status of the Automotive Products business for which the full-year forecast has been revised up? Also, how certain are you that profits will increase in the second half?

A: The business is recovering following the increase in automobile production volumes, and we believe our ability to achieve the full-year forecast is solid. In addition, the market is expected to remain strong again during the next fiscal year. We will expand the product lineup and shift the product mix, including products for BEV (Battery Electric Vehicle) and reducing vehicle weight through aluminum wiring harnesses.

Q: In the Communications Solutions business, other than the BEAD program, are there any other factors that might indicate an earlier recovery?

A: In the optical fiber & cable business, the end of customer inventory adjustments will indicate the start of the market recovery, and thereafter the BEAD program will become more active. Given this, it will likely take some more time until the recovery occurs.

On the other hand, in the optical components business, due in part to the strong AI demand, the inventory adjustments will likely progress slightly faster than in the optical fiber & cable business.

Q: In the optical fiber & cable market in the United States, will imported products have any impact?

A: During the current downturn, they are having no particular impact, but concerning production within the United States, including the actions by Indian manufacturers, the downward pressure on prices is likely to increase.

Also, Chinese manufacturers have entered the markets in South America, and the cost-related pressure is growing.

Q: In the past, you faced operational challenges at the optical fiber & cable production site in the United States. As you increase your focus on manufacturing high value-added products going forward, are you fully prepared, including the establishment of operators and the response for when demand recovers?

A: We have been working to improve productivity at the location in the United States, and

although we were approaching the target level, due in part to the sluggish orders, we are currently reducing staffing levels given the need to limit fixed costs.

Based on our past experience, in order to prevent the recurrence of worsened productivity caused by personnel factors, we are taking steps to restructure including relocating part of the optical cable products to areas where it is easy to secure personnel. We also plan to use insourcing from Mexico and Morocco. We intend to establish the new manufacturing system before the market environment recovers.

It will be done not only to increase efficiency but also to increase sales of products with advantageous features in regions in which we have strengths as a company, such as shifting from general-use products to networking systems and high-value-added products.

Q : Are you considering supplying competitors with US-made optical fiber preforms? In this case, would you also target competitors in Japan?

A : We believe it is more realistic to sell optical fiber that we have already drawn rather than selling preforms that require drawing, but the details are still being studied. We will make a decision based on the economic rationality for us as a company.

Q : What are your thoughts about the timing of the market recovery in South America?

A : There are indications that it will begin earlier than in North America, but it will likely be a gradual recovery and not a rapid recovery.

Q : Concerning the Communication Solutions business, you should have foreseen the downturn in the business environment earlier. It seems that you have fallen behind in your forecasting and the measures in response. Are there issues in relation to the timeframe of the initiatives and how thoroughly they are implemented? Regarding the ongoing initiatives on page 9 of [presentation material announced on November 9](#), including the consolidation and closure of bases, have the effects been incorporated into the forecast for this fiscal year? What is your perceived timeframe for these initiatives? What is your outlook for the timing of the market recovery in South America?

A : Our initial outlook that the market would recover from Q4 of this fiscal year was too optimistic.

The effects of the initiatives indicated on page 9 are already starting to be realized. Concerning the consolidation and closure of bases, with the aim of shifting from general-use products to our strong domains, we will work to complete the initiatives this fiscal year and be caught up when demand returns.

Q : In the Energy Infrastructure business, even without the large projects being pushed back into the next fiscal year, FVA and ROIC spread levels appear to be a challenge. What initiatives will you implement to improve profitability?

A : In relation to extra-high voltage, high voltage and renewable energy, the investments for the projects in Japan and increasing manufacturing capacity have been progressing as planned over the past 2-3 years, and orders are active.

We will proactively accept orders for which we can earn definite marginal profit. Also, we need to take a close look at the investments for increasing production to respond to the orders received, and this will be presented when the details are more finalized.

Q : How will you implement the optimization of optical fiber & cable manufacturing process? Can we understand the intent of starting up cable manufacturing in a location that does not have a labor shortage? Aren't there differences in the grade of products manufactured in North America and Morocco?

A : It is very difficult to move the fiber manufacturing process, so we are thinking about optimizing mainly the cable manufacturing process.

Along with stabilizing production by securing personnel, for example manufacturing products for BABA projects in North America and manufacturing the other products and products for Europe, Africa and the Middle East in Morocco, we will consider optimizing the structural elements, such as reducing production costs and transferring the products produced.

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