

Summary of Q&A from FY2025 Financial Results Briefing

1. Time and Place :

Friday, May 22, 2026, 15:00–16:30 (Online)

2. Participants from Sumitomo Electric Industries :

Osamu Inoue (President), Hideo Hato (Executive Vice President), Masaki Shirayama (Managing Director), Toshiyuki Sahashi (Managing Director), Yoshiyuki Ogata (Managing Director), Hiroshi Hayami (Managing Director), Masatoshi Nakata (Senior Managing Executive Officer), Kenichiro Hizume (Senior Managing Executive Officer), Yuichi Hasegawa (Senior Managing Executive Officer), Kazuhiro Nanjo (Senior Managing Executive Officer), Yoshihiro Matsushita (Managing Executive Officer), Shigeru Suemori (Managing Executive Officer), Kiyonori Yokoi (Managing Executive Officer)

3. Summary of Q&A :

(Info-communications: Overview)

Q. The Info-Communications segment's FY2028 net sales target appears to have been raised further compared to previous guidance, representing approximately three times the FY2025 level. Could you explain the background? At the same time, the growth in operating profit seems modest relative to the growth in net sales. What is the reason for this?

A. Customer demand has increased substantially, and we now have visibility on securing the production capacity needed to meet that demand. Accordingly, we reflected this in the targets of our current mid-term management plan. On the profit side, we plan to partially utilize external manufacturers for certain processes in optical connector products; however, this is more costly than in-house production. Going forward, we intend to increase the ratio of in-house production and aim to further enhance profitability through execution improvements.

Q. Please explain the capacity expansion plans for data center-related products.

A. We plan to expand production capacity in accordance with the plan shown on p. 22 of the presentation materials. We outlined our capacity expansion plan at the investor briefing held last November, but we have since revised the plan upward through additional capital investment and productivity improvements. Given that demand continues to rise, we will seek further gains through productivity improvements and are also considering further investment.

Q. Regarding the net sales plan in the mid-term targets, could you break down the drivers between volume growth and selling price improvement?

A. The primary driver of the net sales increase in the mid-term plan is volume growth.

Q. Are there any differences in demand trends among data center operators? Could you share any customer-specific insights?

A. We believe all hyperscalers are continuing to maintain robust investment plans.

Q. Please explain the competitive advantages of your optical connector products.
A. Our MMC connectors achieve superior low-loss performance through the combination of highly precise ferrules and fiber dimensional accuracy, and we believe this gives us a technological advantage in this area. We have also been able to expand MMC connector production capacity and are well-positioned to meet growing customer demand. In addition, our ability to propose rack wiring configurations within data centers and our design and solution capabilities—enabling efficient installation work—are also highly praised.
Q. If demand for optical connector products exceeds expectations, would it be possible to further increase production capacity?
A. Yes, we believe this is feasible, as the lead time for expanding optical connectors production capacity is relatively short.
Q. Regarding optical fiber procurement: there is a general sense of shortage across the market, yet your company appears to be securing sufficient quantities. What is the reason for this?
A. We have long been in the business of selling preforms to overseas fiber drawing manufacturers, which means we have preform production capacity available. By repurchasing optical fiber from fiber drawing manufacturers and expanding our own capacity, we aim to increase the volume of optical fiber available to us.
Q. Is there a possibility of deciding to expand preform process capacity during the current mid-term plan period? Is it correct that the current mid-term plan's capital investment does not include investment in the preform process?
A. If we decide to expand preform process capacity, that decision would likely be made within the current mid-term plan period. We have already begun evaluating this, and we intend to make a decision after assessing demand trends from FY2029 onwards. The capital investment figure in the current mid-term plan does not include investment in the preform process.
Q. Could you provide an update on new products such as those for Co-Packaged Optics (CPO) applications and multi-core fiber?
A. With respect to multi-core fiber, development is progressing; however, customer desire to bring data centers online as quickly as possible has intensified, and the adoption of multi-core fiber is taking longer than previously anticipated. Regarding CPO-related products, we have been selected as one of NVIDIA's SiPh ecosystem partners and are continuing our development efforts. We expect initial sales to materialize between FY2027 and FY2028.

(Info-communications: Optical Devices, Compound Semiconductor Substrates)

Q. Is it reasonable to expect continued volume growth and margin improvement from FY2029 onwards?

A. Based on the outlook through 2030 that we have received from customers, we would need to at least double production capacity beyond the FY2028 level, and we are examining how to address this.

Q. What is the current status of CPO-related products?

A. For ultra-high output CW-LD intended for CPO applications, we are currently at the stage of final sample shipments and qualification, and are in discussions with multiple customers. We expect pilot shipments to commence by the end of FY2026, with ramp-up beginning in FY2027. From a device perspective, customers are evaluating both CPO and conventional pluggable solutions in parallel, and we maintain a cautious view regarding whether CPO will scale rapidly in the near term.

(Environment & Energy)

Q. Could you share the outlook for the power cable business going forward, including the timing of contributions from the German project recently announced?

A. As shown in the year-by-year performance trend on p. 14 of the presentation materials, net sales in the power cable business are planned to increase sequentially. Mass production at the new European facility is scheduled to begin in FY2027, and the recently announced project in Germany—referred to as 'DC35'—is also scheduled to begin manufacturing in FY2028. Our European operations are expected to enter commercial operation in FY2027, with further expansion planned from FY2028 onwards.

(Automotive)

Q. Regarding the mid-term targets, could you explain the underlying assumptions, including order volume assumptions and your approach to cost reduction?

A. Our order volume is expected to gradually increase from FY2026 through FY2028. Since the vehicle programs awarded through FY2028 have already been determined, we believe we are on track to achieve the mid-term sales targets. On the profit side, we will advance cost reduction initiatives utilizing DX and AI, and gradually improve profit margins. The current operating profit margin is approximately 6%, but our FY2028 target is 6.8%, and we are working toward bringing the margin closer to 7%.

(Company-wide)

Q. Under the new mid-term plan, the Info-Communications segment will account for the largest share of profit. In the past, there was an impression that the company was not particularly inclined to differentiate between segments in terms of portfolio emphasis. What is the background for presenting the portfolio in this way this time?
A. Since taking office as President, I have aimed to expand businesses outside the Automotive segment and reduce its share to below 50%. Under the current mid-term plan, the Info-Communications segment's profit share is planned to exceed that of Automotive and reach 40%. We will pursue a well-balanced portfolio while continuing to grow the business overall.
Q. In the operating profit variance analysis from FY2025 to FY2026 (p. 32 of the presentation materials), the item labeled 'structural improvement' has disappeared. Improving ROIC requires structural improvements such as cost reduction—how do you intend to achieve this?
A. In FY2026, the impact of labor cost increases is substantial, and this offsets price pass-throughs and cost reductions efforts in the current plan. As we have also taken a somewhat conservative approach in budgeting—including external processing costs—we intend to pursue further operational improvements and further enhance profit margins and ROIC.
Q. Cash generation is improving, and even after committing funds to growth investments, there may be surplus cash. This could put downward pressure on ROE—how do you intend to manage shareholders equity?
A. Capital investment is expected to increase further going forward. Moreover, given the heightened geopolitical risks including the situation in the Middle East, we do not believe the current mid-term plan period is a phase during which shareholders equity should be reduced.
Q. Regarding the capital allocation shown on p. 21 of the mid-term plan materials, a cumulative total of 1 trillion yen in capital investment is indicated for the mid-term plan period. Could you provide a breakdown by segment?
A. Environment and Energy accounts for just under 20%; Info-Communications approximately 25%; Automotive approximately 40%; and Electronics and Industrial Materials each at just under 10%.
Q. The new mid-term plan sets a dividend payout ratio of '35–40%'. Could you explain your thinking on shareholder returns?
A. While we have not explicitly committed to a progressive dividend policy, we understand that the capital market expects continued dividend growth. Given that earnings may fluctuate from year to year, we have adopted a wider range—compared to before—in order to maintain, to the extent possible, a consistent pattern of dividend increases.
Q. Looking at the ROIC by segment on p. 25 of the mid-term plan materials, the Info-Communications segment shows a significant improvement, while other segments show relatively little change. How do you think about the target levels each business should aim for?
A. Info-Communications is expected to reach nearly 40%, bringing the company-wide average to 15%, which is the mid-term plan target. The other business segments will also continue initiatives aimed at improving ROIC.