

Q&A for Briefing Session on Mid-term Business Plan
“YASKAWA IR Day 2023” (Summary)
Yaskawa Electric Corporation
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[Speakers]

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Q I would like to ask about the China strategy up to FY2025. As demand for EVs and batteries increases, I think the customer mix in Yaskawa will change, but with local companies emerging, how do you see the scale and profitability?

A China's emerging forces have much impact. We have to admit their rise in various areas is becoming apparent. On the other hand, Yaskawa products have strengths in high quality and precision, and Yaskawa has a strong presence in application areas where they can be utilized. Specifically, in the automotive and EV fields as well as semiconductor industry, we are working closely with customers in China, and we are increasing our solution proposals in an effort to enhance local operations. A major pillar of the China strategy is i³-Mechatronics solution proposals through the combination of motion and robotics.

Q What is your view on the breakdown of the accumulated investment plan of 150 billion yen in the new mid-term plan and the control of fixed costs?

A From the perspective of upgrading production at the mother plant, we have begun to invest in restructuring our production site in Yukuhashi City, Fukuoka Prefecture, and in streamlining production in Europe and the United States. In particular, we will make full-scale investments in the Americas to improve our business performance. In Europe, we will also make investments to strengthen the region's role, where our Slovenian plant is already operational. The biggest aim of these initiatives is not just to increase capacity, but in the field of robots, for example, we will focus on the production of motors with robot production as the cornerstone of our aim.

Fixed costs increase in depreciation due to investment, but because we are investing in terms of increasing efficiency and adding more value, not in terms of increasing capacity, we will certainly generate returns. We believe that investment will not simply become a blistering fixed cost.

Q We would like to hear comments from each business manager on the level of competition, profitability and market share they are aiming for in the Americas.

A (Ueyama/AC Servo & Controller Business) AC servo drive's market share in the Americas is around 11%. It is not a competitive situation, but a significant and further evolving business with semiconductor equipment manufacturers with which we have long been involved. They have made inquiries for specialized products, some of which are already being produced locally in the United States, but the company will accelerate its localization from this fiscal year to next. Standard products are currently being produced in Japan, but the company will also gradually switch to local production to improve profitability. It is a balance with volume, but if demand in the semiconductor market recovers, we believe we will be able to secure profit margins that will surpass those in China. While we will work out our share targets by industry, we believe we can expect to increase our share as we expand our business.

(Yamada/Drives business) In FY2022, 80% of revenue was overseas, and half of that was in the Americas. Demand related to HVAC and Oil & Gas was strong. From now on, the company will focus on product development for the Americas market. In terms of profitability, the Americas and China have about the same level of marginal profits. However, costs are higher in the Americas, so operating profit ratio is lower. The market share has yet to reach double digits, with Yaskawa being the fourth. Currently, the company is in full production for Oil & Gas application, where demand is strong, but wants to expand production further.

(Okahisa/Robotics Business) In the Americas, the company will further improve added value as it expands its systems domain. We will also launch the MOTOMAN NEXT, which was developed with an unprecedented concept of a robot and will approach areas that have not been able to be automated before. To that end, we will also expand partner collaborations. Since there are many academic institutions and tech companies in the Americas, we hope to expand our efforts from there. In terms of market share, Yaskawa's competitors are strong in the automotive sector, but we will increase our presence in all areas of automation.

Q What is your view on local production in the Americas?

A We do not intend to simply increase the production capacity of components, but in AC servo business, we will secure the production capacity to maintain the top position in areas that we want to expand, such as semiconductors and machine tools. In robotics, it is important to build a production platform for mutual collaboration among development, production, and sales, since the basic idea is to provide "products" based on solutions. The key to investment is how to realize this locally.

Q What is the analysis of changes in operating profit in Realize 25 (from FY2022 results to FY2025 plan)?

A The assumptions for foreign exchange rates are set at the same level as the forecast for

FY2023. Revenue increase, adjusted for the impact of currency fluctuations, is +105 billion yen, while its impact on profit is +55 billion yen. The impact of currency fluctuations is -3 billion yen, while increase in value added is +23 billion yen. Impact of increase in overhead expenses is -35 billion yen, partly due to an increase in fixed costs and depreciation from in-house production. Impact of others is -8.5 billion yen due to the elimination of other income in FY2022.

The improvement in the value-added of +23 billion yen is broken down as follows: just less than +10 billion yen by the recovery of cost increase through price pass-through and improvement in gross margin through i³-Mechatronics, about +8 billion yen due to new product effects, and +6 billion yen due to incorporating added value through production in demand areas and in-house production. The impact of material price hikes is expected to be -3 billion yen, although it is seen to level off from FY2024 onwards.

Q How much do you think AC servo business can increase its market share in the Americas for semiconductors?

A Although we can't give specific figures, the in-share for major semiconductor equipment manufacturers is important. If Yaskawa's network technology matches the needs of its customers, it can aim for even higher market share. We will increase the affinity with Yaskawa's strengths in our solution proposal.

Q How can MOTOMAN NEXT be defined as "expanded and penetrated" in the next three years?

A The key areas are the United States and Europe, where we look forward to channeling with academic partners and SIers in the region. If channeling works well with partners who want to offer new services, we can create volume growth in a single pattern, and if that is recognized by industry lateral connections, the speed of volume growth will also accelerate. This is unlikely to happen in Japan, but we will keep an eye on the trend because the key to acceleration will also be when competitors come out with similar services and products.

Q What are the barriers to expanding sales of the MOTOMAN NEXT series?

A Existing robot users will find MOTOMAN NEXT "promising but hard to believe right away." Instead of continually pushing MOTOMAN NEXT to existing users, we need to reach new markets and approach them with new solutions. We believe that there will be no barriers to sales expansion if we can promote what customers need as a solution, and the Americas, where this is easily recognized, is key.

Q What is the potential of AC drive for air conditioning market in the United States?

A The HVAC market in the United States will continue to grow solidly. We also expect demand for energy-saving investments in the Inflation Reduction Act. Overall, there is a lot of room

for energy saving, and we will offer high value-added proposals and increase our share in the HVAC market.

Q Can i³-Mechatronics and autonomous robots (MOTOMAN NEXT) secure sufficient business volume? I feel that profits will not follow without a certain volume.

A Yaskawa has had the experience in the past of prioritizing sales quantity for a certain robot model, resulting in a simple price war and a collapse in value. We will adhere to a code of conduct that values sales prices and will not repeat the same thing. Based on the concept of i³-Mechatronics and reflecting on the fact that we can never be successful by acting from "product" to "solution," we will thoroughly build up our actions from "solution" to "product".