Q&A for FY2023 Results Briefing (Summary)

Yaskawa Electric Corporation

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[Speakers]

Masahiro Ogawa, Representative Director, President,

Shuji Murakami, Representative Director, Senior Managing Executive Officer

(Note):

Motion Control: Motion Control segment

AC servo: AC servo & controller business (Motion Control segment)

Drives: Drives business (Motion Control segment)

Robotics: Robotics segment

System Engineering: System Engineering segment

Other: Other segment

Q Regarding the 4Q results of the order, AC servo is a little better, but I am concerned about the stalling of Drives and Robotics. What is your review and outlook of the order. Based on 4Q order, it seems difficult to achieve the revenue plan for FY2024. How do you plan to achieve the goal?

A The overall order for 4Q was -14% QoQ, which was less than expected. AC servo has gradually bottomed out and is recovering in the semiconductor market, the U.S., China, and other Asian countries. On the other hand, there was a sharp decline in Drives in the U.S. We received large-scale orders in 3Q, but with normalized lead times in 4Q, orders have returned to their normal pace. Other regions' orders have remained flat. We received orders for large projects in Europe and South Korea in Robotics in 3Q, but in 4Q, there were some projects that were delayed to the 1Q of FY2024, which we recognize as just a matter of order timing. China has confirmed an improvement mainly in AC servos. As for semiconductors, it is difficult to determine what constitutes a recovery, but it is true that there are some activities. We can see them on a project basis, so we think the order will gradually increase. Orders for AC servo, Drives and Robotics all improved in March.

As for the accuracy of the revenue plan for FY2024, the order backlog for AC servo was 3 months, 4 months for Drives, and under 6 months for Robotics at the end of FY2023. We will aim to improve our business performance while probing the order status in 1Q.

Q What is the breakdown of AC servo and Drives in motion control for FY2024 revenue plan?
A 50:50

Q Why do you forecast the decrease in profits for Motion Control's FY2024 plan?
A The main reason is the change in inventories.

Q Compared to three months ago, is there anything better than expected other than the fact that semiconductors have shown a sign of recovery?
A No. We hoped that semiconductors would start moving faster, which didn't, and China has not shown much growth after the Chinese New Year either. However, it is a good sign that the order of March is turning around.

Q Is the pickup in semiconductors the reason for the order in March to turnaround?
A Overall, orders were better than we had planned, especially the Robotics in Europe and China.

Q How do you increase profitability to achieve the operating profit target of 100 billion yen in the mid-term business plan?
A For FY2024, we have the same target as we did in FY2023. The assumption is that the recovery of orders, including from China, and the movement of semiconductors will be confirmed in the second half. In addition to those factors, we believe that if we can attract new customers through new products, we will be able to achieve 650 billion yen in revenue under our mid-term business plan. As for added value, we will secure profits by producing products that meet rising demand. As for overhead costs, we will improve wages to cope with inflation as necessary. Even if we take into account the future wage increases and depreciation associated with capital expenditures, it is possible to control the level of expenses assumed for FY2025. On the other hand, we do not intend to reduce R&D investment. Based on our i^{3}-Mechatronics initiatives to increase sales added value, production efforts, long-term overhead cost control, and market recovery, we believe the operating profit of 100 billion yen is achievable.

Q Do you expect FY2024 financial results to be stronger in the second half?

A Yes we do. We are starting to see a bottom in China AC servo business and a rise curve as well. If further market recovery becomes a reality in the future, current production levels will not be sufficient. It takes courage to strategically step up the production, but once the market recovery is confirmed, we should take steps to increase production. We cannot be optimistic about revenue, but we believe that production needs to accelerate in a way to keep up with demand. In that sense, in terms of value added through production, the current plan is conservative in some respects.

Q With NVIDIA's GTC 2024, what are Yaskawa's opportunities in AI-related business?

A MOTOMAN NEXT will be rolled out through the partnership with NVIDIA. MOTOMAN NEXT is an adaptive robot that uses AI to understand its state and plan its movements. The key point of MOTOMAN NEXT is "how to seamlessly connect" with the robot's motion, rather than just using NVIDIA GPUs. The US led the way in AI skills and business deployment, with NVIDIA leading the way in commercializing GPUs. We believe we can partner up with NVIDIA because we are both motivated to use AI as a weapon in the robotics industry.

Q For the plans of FY2024, Robotics will increase its revenue by 10 billion yen. What kind of regions and applications do you expect will become the drivers to achieve this goal?

A In China, overseas expansion by our customers has led to actual demand. The resumption of investment should start in Japan, and projects that had been postponed are now in real demand in Europe. In response to this situation, we have promoted investment in Europe, such as in a system factory, and will make sure that this investment contributes to revenue in FY2024 and beyond. If the actual demand moves as we estimate, we expect to sufficiently achieve our FY2024 revenue plan.

Q What is iCube control?

A iCube control is a group of controllers such as YRM1010, MPX1310, MOTOMAN NEXT controller and IC9200 for the market in Europe and the US to realize the i^{3}-Mechatronics concept.

Q When do you expect these products to contribute to your business?

A Currently, we are working to incorporate our controllers into the next generation of equipment of our customers (machine manufacturers). This will lead to switching AC servos to our products, which is expected to increase our company's presence in the future. Over the next year or two, we will prepare for the next solution for our customers.

Q What is the outlook of Drives in FY2024?

A In FY2023, there was a large backlog of orders in addition to actual demand. However, in FY2024, the backlog of orders is expected to return to normal levels of actual demand. We will normalize the lead time as soon as possible, as well as increasing inventory mainly in the US, and make it possible to meet delivery time properly. In China, the market penetration of competitors is expanding, but on the other hand, the demand in ASEAN continues is growing. In India, we captured the growth of the demand for Drives related to infrastructure. We have a lower revenue plan this year due to fluctuations in regional portfolios but will thoroughly implement operations according to the plan.

Q What is the logic of inventory adjustment? Even if the company's inventory is fair, is there a risk that orders will stop since customers have inventory?

A The risk of orders to stop is low because the inventory of partners, distributors, and of end users are now on the way to normalizing. Rather, since it is too late for our company to stock up the inventory after customers start moving, we need to have enough inventory in advance to cope with the movement. The production needs to be maintained at a high level.

Q While the semiconductor inventory adjustment has been resolving, the automotive industry does not seem to be making much progress especially beyond Tier2. Do you see any recovery?

A OEM manufacturers have been making capital expenditures in line with market sales, and demand from Tier1 has been linked to this. However, we do not have many Tier2 customers, so the detailed status of parts inventory is unknown. Capital investment in the automotive industry has started to move in China and Europe, and demand for hybrid vehicles as well as EVs is increasing.

Q In the breakdown of changes in operating profit for FY2023 and FY2024 forecast, the portion of the increase in added value other than the effect of switching to new products increases by only 400 million yen. What is the reason for this?

A The net value of the remaining portion after deducting other factors increases by 400 million yen, which includes the effect of i^{3-}Mechatronics, inventory fluctuations, and price increases. We will expand the further improvements in added value.

Q Of the breakdown of “the increase in added value” in “the breakdown of changes in operating profit” comparing FY2022 and FY2023, price pass-through had a positive effect of 8.3 billion yen. What is the breakdown of Motion Control and Robotics? Also, please explain the pricing strategy for Robotics.

A The breakdown of price pass-through is about 6 billion yen for Motion Control and about 2 billion yen for Robotics. After deducting the negative impact of the rising cost of materials and other factors, the positive impact was more than 7 billion yen, and the negative impact (about 7 billion yen) that had been weighing on profits for the past 2 years was recovered.

As for the future strategy of robot prices, we will be careful in developing solutions for customers. In the past, customers would choose a cheaper option from a catalog, but the use of robots has spread across industries, and new users have diversified applications and motivation of adoption. In this context, we can now do things like proposing desired prices for robots to the customer. Also, with the solution package our company is proposing, we will take in the system setup costs that customers have been paying to SIers to add more value to our company. We think it's important to differentiate ourselves so that we don't get involved in price attacks from Chinese companies or other competitors.

Q Why did the operating margin for Robotics fall below 9.7%, which is under 10%, in 4Q?

A In addition to the upfront increase in costs, the low value added due to weak production against revenue growth in the second half of 4Q were the reasons. The problem was that the production volume did not meet the level of sales which performed well.

Q By looking at the current order, the full-year forecast for FY2024 and the mid-term business plan ending in FY2025 seem distant. What are the drivers to achieve these goals?

A When we look at the time span over the next two years, we assume a recovery in the semiconductor market. FY2024 is just the beginning, and FY2025 and FY2026 will see tremendous growth. AC servos and Robotics to some extent will benefit from this increase in demand, and Drives are not expected to grow that much. In the near term, demand for semiconductors is expected to recover gradually from the first quarter of FY2024, and the company plans to develop a system for quick sales of orders and to turn our inventory into sales.

Q Do you expect a recovery other than the semiconductor market?

A We don't have an image of any other specific application that will recover strongly, but we think India will become important in the region due to capital investment related to infrastructure.

Q Regarding monthly orders, you mentioned that the data in March is better than expected. How do you set the assumption for orders in FY2024 1Q?

A Orders received in FY2023 4Q were worth 110 billion yen due to the timing of projects, but in FY2024 1Q, we expect orders to be worth 130 billion yen, taking into account the improvements. We were able to confirm that each segment has started to move beyond the estimated level.