Q&A for Telephone Briefing, FY2017 Third Quarter Results (Summary)

Yaskawa Electric Corporation

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[Speakers]

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Q What are the factors by segment for the increases in added value in the breakdown of changes in operating income for the April to December period (P. 10, supplements to financial results)?

A ・In the motion control segment, both our AC servo business and drives business are doing well.

・Effects from sales expansion for the Σ-7 and improvements in operation rates are being seen in our AC servo business.

・Improved operation rates are also leading to increases in added value in our drives and robotics businesses.

Q Out of the increases in added value for your motion control segment, what is the ratio comprised by the AC servo business and the drives business?

A ・The ratio of improvements in operation rates is approximately six (AC servo) to four (drives).

Q What effects have there been from new AC drive products on improvements in profit?

A ・Sales are steadily growing for the zero series, including U1000. We'll be able to expect its contribution to profit in the time to come.

Q What factors are behind the acceleration in the amounts in orders for the robotics segment indicated on P. 22 of the supplements to financial results between Q2 and Q3 in FY2017?

A ・Besides steady global performance for our auto-related business, our business for 3C (Computer, communication, consumer) markets has begun to take shape.

・In particular, our joint ventures with Midea and Shenzhen Everwin Technology have been contributing to increased orders.

Q What impact does the increase for 3C have on profitability?

A ・While marginal profit will decrease, the increase in volume will improve efficiency and it won’t be a factor for a decrease.

Q What is your general impression of 3Q?

A ・The environment for orders that we anticipated when we made an upward revision for our performance forecast at Q2 results announcement continues.

・While sales recorded in each segment somewhat differed from our plan, the level of earnings has basically been as we planned.

Q How is your current outlook on Q1 in the next fiscal year?

A ・We’re on a recovery trend at present, improving from our lowest levels in October.

・With Chinese New Year in Q4, investments are set for smartphones, auto, machine tools, and generic automation after Chinese New Year and we’re forecasting growth in Q1 in the next fiscal year compared to the same period a year earlier.

Q What are the factors behind sluggish performance in the system engineering segment?

A ・The number one factor is the slump in the PV inverter business.

・The market has cooled down this year due to a recoil from the tax review in the United States and the conditions have continued through Q3.

・We recorded 300 million yen in Q2 and restructured the PV inverter business and rebuilt our business plan for the future based on changes in market conditions and the results from our development of new products.

・In Q3, we reassessed the value of the technical assets of Solectria in the U.S. which is related to this business and performed write-downs for around 2.5 billion yen as extraordinary losses. Even with this aside, operation rates are worsening, which is pulling down profitability for the segment.

・As we can anticipate a market recovery next fiscal year, we will launch new products and aim to improve profitability and secure competitiveness. In addition to that, we plan to have an environment where we can expect profit from the effects of decreased expenditures due to restructuring and the elimination of amortization burdens for technical assets.

Q How much of an effect would be brought about by an elimination of amortization burdens for technical assets?

A ・With about a decade remaining, it should be around 250 million yen a year in depreciation.

Q As to products for automobiles, how are the movements in new markets like the market for electric vehicles?

A ・We have specific projects with a focus on China and the market is becoming active.

Q How is the market background for Q3 results for the AC servo business?

A ・Smartphone-related markets tend to have undulations and this year in Q1 and Q2 there were significant investments in new model iPhones which settled down in October. After that, there has been constant investment by Chinese manufacturers. Demand is presently bullish, not only for smartphone-related markets but also for investments in other general areas of automation.

Q China's shipments of smartphones appear to be on a decreasing trend. What is its impact on your business?

A ・While shipments of smartphones are increasing, their growth rate is slowing down. However, as our business has to do with facility investment, it isn't trends in consumption but rather the way in which new products equipped with new technologies come out, for example switches in models and changes in the specifications, that are connected to our business.

・If the technology that's been applied to the new model iPhones are adopted by other manufacturers on a broad scale, we can expect to see further investments. We're anticipating that type of demand in the first half of next fiscal year, and expecting investments in new models to accommodate 5G in the second half.

Q Are you expecting tailwinds from U.S. policy for tax reviews? Is it bringing changes to the status of inquiries for your products?

A ・Direct impact on our company from increased investments caused by reduced taxes is something that we have yet to see.

Q Growth is being seen for products for the 3C markets in the robotics business in China. What is your impression of the composition ratio?

A ・In China, sales ratio for applications other than automobiles exceed half for robotics sales in China. My impression is that about 20 percent of those other than for auto are for 3C.

Q With regard to Solectria's write-downs, aren't there going to be moves to increase deferred tax assets? Could that cause temporary increases in taxes?

A ・Deferred tax assets caused by Solectria's write-downs will increase in Q3, and we expect to see this and other revaluation and breakdowns in Q4 for the U.S. in general, which we anticipate at around 500 million yen.

・There are other similar tax debts when we look globally but considering other positive factors, it won't be a burden in Q4.

Q Will orders be on an increasing trend in looking toward Q1 next fiscal year?

A ・There are no factors for decreases at present and we expect to see increases. However, as for Q4 this fiscal year, we will need to consider the effects from the Chinese New Year and the impact from the change in the fiscal year period.