

FY2017 Results Briefing Q&A (Summary)
Yaskawa Electric Corporation
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【Speakers】

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Q How much of an effect did you have from new products in your AC servo and AC drive businesses?

A ·We had improvements in our AC servos amounting to 900 million yen on the impact of new products and 300 million yen for our AC drives in FY2017.
·As for FY2018, we are planning to achieve effects amounting to 700 million yen for our AC servos and 600 million yen for our AC drives.

Q How is the status of your market share for AC servos?

A ·While we have yet to see numerical values for 2017, our global market share was estimated to be around 17 to 18 percent in 2016.
·It is estimated that we had top market share, 28 percent, in China in 2016. Results for 2017 are now being tallied, but we expect this to exceed 30 percent.

Q Your China orders for AC servos in Q1 FY2017 were on a high level. What are your expectations for Q1 FY2018?

A ·We were concerned about the impact of the reduced production of smartphones but orders for AC servos increased beginning in March as planned.
·Local smartphone manufacturers in China are aggressively investing, in addition to increases in applications for such goods as household appliances and lithium batteries.
·Lithium batteries are used for various devices that are charged through connections to USBs and usage is expanding.

Q What are your thoughts on investment and production in China from the perspective of achieving your long-term business plan “Vision 2025”?

A ·We plan to invest at around six percent of sales.

- Our company has continued to push forward our policy to manufacture at the site where we have demand. We will increase production in China if local demand increases. We believe that it will be possible to secure the necessary manufacturing capacities for the moment through means such as the plants that are currently under construction.

Q How do you see “i³-Mechatronics” contributing to better performance for Yaskawa in the time to come?

A

- There are always devices around the sites where our robots and servos are delivered. In order to propose comprehensive suggestions including those peripheral devices, starting this fiscal year, Yaskawa has been operating in Japan with a sales structure broken down by region.
- For example, we can further leverage the strengths of our company by showing the data of robots and their peripheral AC servos together, and expand our area of business. Integrated controllers are the tools that enable us to do that.

Q There’s edge and cloud as areas for realizing IoT, and there seem to be companies which are forming partnerships. What do you think about that?

A

- We feel that it is to the extent of edge that our company can demonstrate its strengths and rather than overall assembly lines at plants, we will focus on cell production.
- Edge is composed of the data of our products and it’s an area that we should protect. From there on, we will team up with other companies and IT vendors. We have no intention of fencing in from the upper level.

Q How do you foresee changes over the next few years for 5G, semiconductors, machine tools, and automobiles, including EVs?

A

- What will be the key over the next few years is the transition to 5G. Revolutionary changes will occur in the shift to 5G, more so than in the shift to 4G. We need to have initiatives that foresee changes in semiconductors and terminals, and also changes in the way that lithium batteries will be used.
- For the transition to EVs, the structure of cars and the very method of making them will change for decreased body weight in aiming for longer cruising range. We will reflect this on our initiatives in our robotics business.

•Through the shift to 5G, EVs will become like cruising computers, which means that it will be necessary for memory, CPU, and other such things to accommodate the change, and this will also have a positive effect on our business.

Q As the applications of robots expands, how does Yaskawa Electric secure system integrators (“SIer”)?

A •The development of SIers for robots is a challenge that’s faced by the robotics industry.

•There are strengths and weaknesses in each SIer and my awareness is that it’s necessary to develop SIers specialized for each application.

Q How will you achieve profit in your system engineering business this fiscal year?

A •We expect to be in the black after restructuring at Solectria in the U.S. and the release of new products that can be used globally to improve our PV inverter business.

Q What are your future plans for fixed costs?

A •Out of our 8.6 billion yen increase in expenses for FY2018, we have already included around three billion yen in our plan to pay back our employees. The objective is to bolster the links between remuneration and our performance. I’m looking at an amount after putting aside the three billion yen as the increased amount necessary for regular operations including development costs.

•We’ll have a little increase in depreciation and amortization costs but manufacturing overhead will be the main cost. It will come in as a negative element for added value.

•As for future increases in expenses, we’ll control these at less than a third of our increase in sales and operate efficiently.

Q For AC servos, the rapid spread of the $\Sigma-7$ in China boosted performance. What are your expectations for switches in other regions? Please tell us what you anticipate for AC drives as well, for switches to new products.

A •For past models, we have had experiences where we would make a bold switch and it didn’t turn out to be positive from a business perspective.

- Customers do not necessarily want to switch to a new product; if they want to continue to sell existing products then they should continue to use old products.
- The timing for updating machinery in Japan is after around five years of use. AC drives require a certain amount of time as well, due to reasons such as a lack of reasons for repairing an elevator within a short period.
- On the other hand, the way of thinking in China is to build a new machine and proceed in a new market, so switches take place more quickly.

Q What are your expectations for ROE in FY2018?

A •We're looking at around 20 percent.

Q Orders are supposed to be strong, and yet why is it that the shakeout of machine manufacturers who supply machineries to smartphone EMS are taking place?

A •In China, many companies are freely created, but when conditions worsen the stronger companies absorb the weaker ones and get bigger; a repetition of this process creates a structure where major companies are created, and shakeout of companies has thus occurred naturally.

•I expect that the same thing will happen in the future in the robotics industry.

Q Robotics sales are expected to increase by about 10 percent. What will the growth rate be in China?

A •We don't disclose our business plans by segment and region, but I expect that growth for our robotics business will be led by China.

•I expect that it will be 3C (e.g. electronic devices, household appliances) that grows in China. The effects of our joint ventures with Evenwin and Midea will further increase.

Q We hear talk about the effects of collaboration between Midea and KUKA. How will the impact be on Yaskawa's partnership with Midea?

A •There is no impact on the partnership between our company and Midea. The areas at Midea where they work with us and where they work with KUKA are divided.

Q How about the impact to your company from U.S. tariffs on Chinese exports?

- A
- We won't be able to do anything about its impact if it causes a downturn in the market, but other than that, I don't see any negative elements for our company.
 - Yaskawa doesn't export products that we manufacture in China to the U.S. or vice versa.
 - If there's a restriction on Chinese exports to the U.S. and there's no change in U.S. demand, then capital investment will be incurred in the U.S., which will have a positive impact on our company.
 - Even if there were to be a restriction on Japanese exports of robots, we have plant facilities for robotic systems in place in the U.S. and would be able to start local production in about half a year.
 - And another thing is that there are no strong manufacturers of industrial robots in the United States, so we aren't expecting a loss in our market share.