Q&A for Telephone Briefing, FY2018 First Quarter Results (Summary)
Yaskawa Electric Corporation
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[Speakers]
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(Note):
Motion Control: Motion Control segment
AC servos: 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: What are the ratios for AC servos and Drives in the March to May period (1Q) FY2018 in Motion Control and the breakdown of ratios by region for each business?

A: - In our Motion Control sales, the ratio for AC servos was 68% and 32% for Drives.
- Sales ratios for AC servos in 1Q by region were 29% in Japan, 15% in the Americas, 8% in Europe, 31% in China, and 16% in other Asian countries.
- Sales ratios for Drives in 1Q by region were 17% in Japan, 29% in the Americas, 14% in Europe, 23% in China, and 16% in other Asian countries.
- Sales ratios for robotics in 1Q by region were 23% in Japan, 17% in the Americas, 19% in Europe, 27% in China, and 14% in other Asian countries.

Q: Was the 20.7% operating profit margin for Motion Control better than initial plan (at the time of the announcement of plans in April)?

A: - The status of profits is as we had anticipated.

Q: In your supplementary results materials (P. 26), orders for Motion Control for the March to May period (1Q) were down 1% from the same period a year earlier. How is this when you break it down by AC servos and Drives?

A: - Drives were somewhat more bullish compared with the same period a year earlier. AC servos were slightly weaker as 1Q results the previous year had been at extremely high levels.

Q: You've corrected your results forecasts by segment. What was the background for this?

A: - There were adjustments for AC servos in Motion Control due in part to the impact of a delay in investment by a major semiconductor-related company. Meanwhile, we continue to anticipate vigorous demand for robotics and are planning to use this to complement our adjustments for AC servos

Q: What is the impact of U.S.-China trade friction?

A: - Our company does not export goods manufactured in China to the United States. As we do not have goods exported from the U.S. to China, either, there will be no increases in the burden of direct tariffs.

- There are hardly any machinery where our customers in China have built in our products and export them to the United States, either.
- Cases where impact may be anticipated would be where our customers manufacture products using devices or robots in which our products are embedded and export them to the United States (e.g. smartphones).
- If we were to say provisionally that goods like smartphones were to become subject to regulations, if the regulations continue on for long periods of time, we can then anticipate a decentralization in manufacturing bases to Asia and other areas and incur investment, and that would not cause negative impact.
- Our greatest concern is that customers may hold back from investing in a situation like this where the status is indeterminate, which would impact general economic conditions.

Q: We've heard that an order from a major semiconductor-related company has been adjusted. To what extent is this likely to impact the achievement of the full-year earnings forecast that you maintain?

A: - We had initially had a modest outlook for the latter half compared to the first half. In the event that the impact of adjustments by the major semiconductor-related company should become significant, we believe that we can achieve our full-year forecast by covering that by having our robotics exceed our initial plans, even if our performance in AC servos fall short of our expectations for the second half.

Q: Oders for robots are said to be steady. How are the trends for demand when broken down to auto-related and general industry?

A: - Auto-related demand is good on a global scale. There are investments in China for EVs (electric vehicles), and demand is firm.

- For general industry, there is a sense of lull in investments related to smartphones in the general market in China for electric devices; however, we can expect new demand created, for example from changes in materials from aluminum to glass. Over the medium-term, as investment will become full-fledged to cope with 5G communication specifications, there will be increases usage such as that for the assembly of smartphones in response to that.

Q: How are sales ratios for AC servos and Drives in your first half forecast for Motion Control?

A: - 67% for AC servos; 33% for Drives.

Q: How is demand for Motion Control with a focus on trends for smartphone-related demand between 1Q and 2Q?

A: - There was investment by local Chinese smartphone manufacturers in 1Q and it started a little bullish and we anticipated a slowdown in 2Q, and things are moving in exactly that way.

- As to demand for AC servos other than smartphone-related use, while there will be a slowdown for pre-processes for semiconductors, growth is strong for electronic parts for vehicle installation which are used for such functions as automatic driving and the prevention of collisions. Environment-related demand is also extremely strong in China, for example, EV-related and that related to solar power generation.

Q: In your forecasts for breakdown of changes in operating income, how do you see the effects of new products such as Σ-7?

A: - For the Σ-7 in our AC servo business, we are already at high levels in switching ratios in China.

- Meanwhile, switches in Japan have not advanced significantly. This is because switching is underway to match the development schedules of our customers. For that reason, the situation is difficult for added switching effects as seen to date for the Σ-7.

- As to our Drives business, switches to the new series is going according to plan, however, there is little impact on the first half of this fiscal year and we expect to see gradual contributions to profit through the second half.

- The same applies to our robotics business; we would like to complete the switch to the new series by the end of this fiscal year. At present, we have not achieved increases in added value from our new robotic products.

Q: Tell us about the impact of the change in your 1Q accounting period on performance.

A: – In the supplementary materials for our results, we made comparisons between 1Q (April to June period) last fiscal year to 1Q results this year (March to May period). Our overseas subsidiaries have been closing the books at the end of May and consolidating 1Q results, and there's no variance in the pertinent period, even if we make a change in the results period.

- On the other hand, there's a 20-day gap in Japan. Particularly because sales related to large-scale social systems and steel plants tend to concentrate over the end of March for System Engineering, we had been accounting for sales conventionally in 4Q of the previous year, but because that will be in 1Q starting this year due to the change in our results period, it's difficult to make a comparison.

- We see the pertinent gap in sales for major deals at around four billion yen. However, as around two billion yen of that has fallen under 2Q, we expect impact from the change in our results period at around two billion yen in 1Q this year.

- As the domestic mega-solar project (1.5 billion yen) incurred in 1Q last year has not been incurred in 1Q this year, impact from sales increases caused by the change in the results period, when seen from overall sales, will be limited.

Q: Are there causes for seasonal changes with regard to orders in your robotics segment?

A: - Orders in the robotics segment are high in 1Q and 3Q and sales tends to be high in 2Q and 4Q. These seasonal aspects exist due to the timings that equipment is set up.

Q: You say there is little impact on sales due to the change in the accounting period in your System Engineering segment. How is impact from the aspect of orders?

A: - Orders in the System Engineering segment is on a project base and no particular trends exist for each quarter. This period has become bullish when compared to the same period a year earlier.

Q: What type of background is there for the increase in sales in Other segment?

A: - It's because there has been the addition of sales from Suematsu Kyuki, an agency for our products that has become our consolidated subsidiary as of this fiscal year. There is impact on sales in Other segment in 1Q at around 2.5 billion yen.

- In addition, there is also the approximately two billion yen in sales from the sale of equipment for mass production at Chery Yaskawa, an unconsolidated joint venture that manufactures drive systems for EVs.

Q: How are the sales trends for AC servos sold to Chinese robotics manufacturers?

A: - Sales of AC servos for robots are steadily increasing in line with the growth of Chinese manufacturers of robots. Through the cultivation of new customers, the status is such that we can continue to anticipate increased sales.

Q: While full-year expectations at the beginning of the period had been 8.6 billion yen for the increase in expenses for the current period (FY2018), you are planning 2.4 billion yen in expenses for the first half at this time. It seems to be a small amount versus your plans. Are you going to control expenses?

A: - While we had been anticipating an increase in expenditures in order to respond to future increases in volume, as there is no need at present to use the proportion for increased volume, the situation is such that we are able to control expenses in the first half.

Q: Looking back at orders in 1Q, what had been unexpected at the beginning of the period was the delay in investment by a major semiconductor-related company. Were there any other points that were better or worse than initial expectations?

A: - For our AC servo segment, we hadn't foreseen the delay in investment by the major semiconductor-related company at the beginning of the period; however, other things are going as expected.

- As to the Drives segment, we have for example investments in China for dealing with the environment and a better environment for orders is continuing than we had planned.

- As for our robotics segment, a situation is continuing where auto-related orders are stronger than anticipated.