

Q&A for FY2018 First Half Results Briefing (Summary)
Yaskawa Electric Corporation
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[Speakers]

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(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 For Motion Control, what is the ratio of AC Servo and Drives in sales for the first half of FY2018, and how is the breakdown by region?

A •For sales of Motion Control, AC Servo comprised 65% and Drives stood at 35%.

•Regional sales ratios for AC Servo for the first half were as follows: Japan: 31%; the Americas: 15%; Europe: 8%; China: 27%; Asia except China: 17%.

•Regional sales ratios for Drives for the first half were as follows: Japan: 18%; the Americas: 31%; Europe: 13%; China: 22%; Asia except China: 16%.

Q As per the fluctuation in quarterly orders on page 26 of the supplementary material, and for the period of June to August in FY 2018, how is it like when dividing the Motion Control into AC Servo and Drives?

A •For AC Servo, it was -20% YoY; -28% QoQ.

•For Drives, it was +7% YoY and -1% QoQ.

Q As per the fluctuation in quarterly orders on page 26-27 of the supplementary material, and for the period of June to August in FY2018, how is it like when dividing the fluctuation of each business by region?

A •For AC Servo: Japan: -7% YoY; -10% QoQ; the Americas: -29% YoY; -35% QoQ; Europe: -13% YoY; -16% QoQ; China: -27% YoY; -45% QoQ; Asia except China: -32% YoY; -33% QoQ.

•For Drives: Japan: +17% YoY; +7% QoQ; the Americas: +14% YoY; +10% QoQ; Europe: -1% YoY; -3% QoQ; China: -3% YoY; -14% QoQ; Asia except China: -1% YoY; -16% QoQ.

•For Robotics: Japan: +2% YoY; -0% QoQ; the Americas: -9% YoY; -9% QoQ; Europe: +27% YoY; -9% QoQ; China: +7% YoY; -4% QoQ; Asia except China: +3% YoY; -2% QoQ.

Q What is the contribution made by the Drives Business to the expected full-year operating income for Motion Control?

A •The anticipated full-year operating income ratio for Motion Control is 19%. The breakdown is slightly more than 20% for AC Servo, just under 20% for Drives. The difference in the profit ratio between these two businesses is around 4 points.

Q What is the reason of good performance by Drives in China?

A •The first reason is in the move in China to weed out companies that have negative impact on the environment. In order to cope with the stricter environmental regulations, sales of drives are increasing in response to saving energy initiatives as well as fans and blowers for dust vacuuming, and so forth.
•The second reason is that investments in infrastructure, such as for ports, are favorable.

Q Why are growth rates of Drives high in the Americas and in Asia except China?

A •Infrastructure investment is steady in the Americas; however, what is pushing growth the most is demand related to oil and gas. If crude oil price continues to grow steadily, so will investment.
•Demand related to infrastructure for environment and energy-saving is also steady in Asia except China, and we see this as being stable and growing.

Q Do orders for AC Servo hit bottom in the August-September period?

A •AC Servo are largely for semiconductors and smartphones, which are our chief markets. In China, manufacturing facility for household appliances is also a big market.

•For smartphones, as there are no explosive production or design changes, which would lead to capital investment, we do not expect much during this fiscal year. The most promising application in this area is the laser processing. While investment in automated production is at low levels, we consider that it will recover to some extent in the second half.

•As per the semiconductors (memory), since the unit price will fall when capital investment is made and the degree of integration is increased, manufacturers seem to control the investment to a certain extent. We expect a recovery in semiconductor-related orders from November through the beginning of the next year, once investment in memory for 5G begins next spring.

•For auto, orders are transitioning steadily. While there is a tendency of cutbacks in subsidies for electric vehicles (EVs) in China, the production of lithium batteries is doing well. We expect that further investment will be made in the future, including semiconductors which are necessary for automated driving.

Q Are there any risks of the bottom falling out again for AC Servo orders?

A •Actual production in China is continued, and goods are being produced.

•For example, in case that the replacement cycle for smartphones becomes longer, and that demands become sluggish and smartphone production should be suspended, there is a possibility of the bottom falling out; however, that isn't currently the case.

•Chinese smartphone manufacturers increasingly export to India and other countries, and electronic payments through smartphones instead of cash is spreading globally. For that reason as well, we can't see a possibility for the bottom falling out.

•China initiated monetary easing after the anniversary of founding of PRC. In addition, it has taken economic measures through income tax reduction. Auto and household appliances still continue to be manufactured, and as there is no reason for demand to fall if consumption is further prompted, we can't really imagine the bottom falling out.

•Even if there's U.S.-China friction, as long as production doesn't fall, we consider that Chinese demand will be back.

Q What is the status of inventory of AC Servo, including those of supply chains?

A ·We don't know about the extent of inventory at end users, but we have a grasp as far as the status of agents. There is no swelling inventories at agents.
·When production at end users are on an upturn, parts/equipment manufacturers like us accumulate inventory. And when end user production is halted, parts/equipment manufacturers control their inventory. As we cannot suddenly suspend production in order to control inventory, we are currently doing production control by gradually decreasing the number of production.

Q When will orders for AC Servo be on the plus side against a year earlier?

A ·We can't say with certainty, but it will recover to the plus side by around Q2 FY2019.

Q Robotics sales for the first half were steady, however, what is the reason why it didn't reach the forecast?

A ·Particularly in China, there were orders for which shipments are being suspended because advance payments weren't being made due to financing issues on the customer end, so sales planned for Q2 have been sliding into Q3 and Q4.

Q What is the reason for the downward revision for Robotics?

A ·Orders in China in the 3C (Communication devices such as smartphones and home electronics) area were weaker than expected.
·Last year, there were large sales increases in AC Servo and Robotics, and there was restocking during both the first and the second half. On the other hand, this year, because the growth in orders hasn't reached our initial expectations at the beginning of the period, we are holding back stock increase from Q2 than we planned. For that reason, the reduction in operation rate is a factor for the reduced profitability.

Q Under current circumstances, will it be possible to improve profitability in Robotics?

A •Profitability can be improved by increasing sales. In China, cash-flow situation seems to improve as the effects of the monetary easing.

- With Robotics in China, profit rates are high for systems of auto-related welding, painting, picking, and other such systems, in which we have special know-how, so we will aim for boosted sales with applications where we can leverage our strengths. Also, as it is important to lower the costs of robotic units to be competitive with other companies, we will facilitate our supply chain and improve local manufacturing in China as well as lower costs with new product launches. Furthermore, we will reduce fixed costs by increasing production volume to improve profit ratios.

Q How is the competitive environment in the robotics market in China?

A •Robotics from Chinese manufacturers are not used in the auto industry, so there is no direct competition.

- Chinese manufacturers continue to survive not so much with their robotic products but rather by dealing with system integration. Meanwhile, our policy is to supply control devices and motors to prominent Chinese manufacturers.
- As to the automobile market, no price declines have been incurred in sound competition between major Japanese and European manufacturers.
- As for general industrial markets including post processing for semiconductors and smartphones, the strengths and weaknesses of the players are still mottled, and conditions aren't such that specific manufacturers have overwhelming market share.

Q Are there any changes in China for its subsidy policy on Robotics?

A •There are those from the government and those from local government, and we see it as ongoing, but haven't confirmed the details.

Q The market environment for Robotics seems to be worsening. What is the forecast for the next fiscal year?

A •Looking at the overall picture for Robotics, we don't think there will be major adjustments.

•As manpower costs increase in the manufacturing industry, needs for automation are increasing globally.

•Particularly in China, there are pressing needs for automation, and since the price of small robots is beginning to match the annual salaries of direct local hires, the situation is such that if the robots are operated, investments are recovered in two years even if we include the costs of peripheral devices. For that reason, we are not thinking that there will be much in the way of adjustments.

•As cars as well are progressing for EVs, we expect that capital investment will tend to increase in the next five years.

Q What is the amount in sales for the first half and also for the full year forecast for Solectria (U.S. subsidiary for PV inverters) and The Switch (Finnish subsidiary for equipment for large wind turbines) in System Engineering?

A •Solectria posted 2 billion yen in the first half. Forecast for full year sales is 3.5 billion yen.

•The Switch posted 4.5 billion yen in the first half. Forecast for full year sales is 9.5 billion yen.

Q In the analysis on changes in operating profit on page 17 of the supplementary material, full year plans for cost increases had been -8.6 billion yen at the beginning of the period. It stood at -5 billion in the announcement this time. What types of changes have there been?

A •We controlled what had been planned for the first half. We also plan to continue to hold back somewhat in the second half, chiefly with AC Servo.

•We're maintaining our plan for incentives for employees and investment for the next fiscal year.

Q As per the added value in the analysis on changes in operating profit on page 17, with unrealized profits and losses being excluded, why is it indicated as being negative due to a reduction in operation rate?

A •It is because last year's operation rate of factories had been high.
•Last year, inventory was increased, in addition to the rapid increase in sales. This year again, sales have been increasing, but the increase rate has been shrinking, and increases in stock has been controlled. The reason why stock increases has been controlled despite sales increases is that the operation rate has settled down to normal levels.
•Last year, around 10 billion yen in stock and stock in process were accumulated in both the first half and the second half, but in the first half of this year, we have controlled that accumulation at around four billion yen. We will watch transitions in orders in the second half, but have no plans at this point for rapid increases.

Q Inventory assets have increased by approximately 8 billion yen since the end of the previous fiscal year. Out of this increase, what has the impact of newly consolidated subsidiaries been?

A •Approximately 2 billion yen.

Q Added value within the analysis on changes in operating profit on page 17 has been reduced in comparison to the first half. Is this because sluggish sales in China, where profit ratios are high, causes a worsening of the geographic mix?

A •A worsening in our geographic mix is happening for AC Servo. It isn't being incurred for Robotics.
•As the China ratio will decrease in the second half, added value for Motion Control, chiefly AC Servo, is expected to worsen.

Q Despite a downward revision, plans for capital investment, depreciation, and research and development have been deferred. Is this because you have confidence in your growth in the next period?

A ·We are maintaining our capital investment so that we have a structure where we can quickly respond to production when there is a recovery in demand. Due in part to the fact that we didn't invest last year until the last minute, it was tough to manage our business with incomplete infrastructure. In the future, we will continue to facilitate infrastructure according to business conditions.
·As to research and development costs, in the middle of dramatic changes in business conditions, it will never be negative in the long run.

Q What are the factors expected to support performance in FY2019 besides the semiconductor and smartphone markets?

A ·In China, as the period after Chinese New Year is a time when companies spend their budgets, Q1 orders have always been on the rise these past few years.
·While transitions in auto, smartphones, and household appliances have affected performance in Robotics and AC Servo these past two or three years, next year, we will need to pay close attention to market trends in semiconductor, smartphone, autonomous driving, and household appliances in China.
·As a mid-term initiative including near future, there are some applications, such as for ready-made meal production, which is currently being prepared.
·We are also paying close attention to whether there will be a shift from China to Southeast Asia, etc. beyond trade friction.