

Q&A for Telephone Briefing, FY2019 1Q Results (Summary)  
Yaskawa Electric Corporation  
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[Speakers]

Shuji Murakami, Representative Director, Senior Managing Executive Officer  
Ayumi Hayashida, General Manager, Corporate Communications Div.

(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 What is the ratio of AC servo sales to motion control in 1Q?

A 57%

Q As per the fluctuation in quarterly orders on page 24 of the supplementary material, and for the period of 1Q FY2019, how is it like when dividing the fluctuation of each business by region?

A •AC Servo

Japan: -40% YoY; -10% QoQ; the Americas: -37% YoY; -10% QoQ;

Europe: -22% YoY; -4% QoQ; China: -28% YoY; +81% QoQ;

Asia except China: -51% YoY; -7% QoQ.

•Drives

Japan: -4% YoY; +18% QoQ; the Americas: +9% YoY; +4% QoQ;

Europe: -16% YoY; +5% QoQ; China: -19% YoY; +52% QoQ;

Asia except China: -25% YoY; -3% QoQ.

•Robotics

Japan: -9% YoY; -5% QoQ; the Americas: -38% YoY; -23% QoQ;

Europe: -20% YoY; +12% QoQ; China: -16% YoY; +20% QoQ;

Asia except China: -6% YoY; +1% QoQ.

Q Please explain your recent order.

A China took off in March. In Japan, inventory adjustments in semiconductor-related industries, such as electronic components, are coming to an end, and the order is expected to pick up in 2Q. In the United States and Europe, the order was positive until March, but slowed in April-May.

Q Has China hit the bottom?

A In recent years, China slowed down from the second half of the second quarter. It is possible that the 1Q is relatively strong again this year, and that the latter half of the 2Q sees slowdown. However, compared to the fourth quarter of last year, funding has improved and investment has returned. In China, the 4Q was the bottom, and it can be said that the business recovered in the 1Q.

Q Why has profitability in Robotics declined?

A The YoY profit decrease due to the sales decrease was 1.2 billion yen, and the value added decrease was 1 billion yen. The decrease in added value included an unrealized gain or loss of -700 million yen, with a net of -300 million. The 300 million yen drop in quality was due to -800 million yen in production overhead costs, which did not match the decline in sales. On the other hand, cost reductions and the effect of new products at each base amounted to + 500 million yen.

The cost in Robotics increased by 800 million yen. Since the second quarter of last year, we have been investing in the robotics business by reviewing the allocation of engineering resources within the Group in order to expand sales in Europe and China and respond to i<sup>3</sup>-Mechatronics. The company controls expenses for the current fiscal year and is able to secure a profit structure expected at the beginning of the fiscal year.

Q What is the progress of sales, operating profit, and orders against the annual plan?

A Regarding motion control and robots, orders are somewhat weak and sales are weak. In the run-up to the second quarter, China may slow down in motion control, but Japan, Europe and the United States expect a bottom out. Overall, we think 2Q will be better than 1Q. There are projects built-up and backlog of orders, therefore in the second quarter, orders and sales of robotics are expected to rise and recover in the second half of the year.

Q How much progress has been made with the original plan?

A At the beginning of the period, the sales plan was 48% for the first half and 52% for the second half, but there has been no significant change. But the orders fell short of the expected volume, we cut production and reduced inventories. The company failed to achieve planned profitability due to a delay in reducing production overhead costs in line with the decrease in utilization ratio.

Q What is the background of the slowdown in the U.S. and Europe from April / May?

A Because Europe and America also have businesses related to China, the effects of the slowdown in China from the third quarter to the fourth quarter of last year have come to appear due to a time lag. Similarly, Japan is expected to pick up from the second quarter as the first quarter is the bottom and customers are said to have finished inventory adjustments. In the United States, the semiconductor industry in particular has not recovered.

Q What is the current situation in China?

A We were optimistic about China until May. However, trade friction between the United States and China intensified after the Golden Week holiday period, and investment sentiment began to be affected in the latter half of May. As for robots, there is always a need for automation, so although there are projects, actual orders are falling behind. The customers seem to take time in making decisions. It is not that they have lost interest in investing, but that they are waiting for a chance. If the future of trade friction becomes clear, the projects that have been suspended will start moving forward.

Q What is the cause of QoQ +52% for Drives' orders in China?

A In the fourth quarter of last fiscal year, there was a drop due to the Chinese New Year, so there was a reaction in part. Policies are also driving investments in infrastructure and environmental initiatives.

Q Statistics such as machinery orders, which seem to be linked to market trends in Robotics, are not good, but will orders for robotics improve in 2Q?

A It is difficult to clarify about the order, but there are many projects. Many orders are expected to be confirmed in 2Q.

Q The cost of robotics increased by 800 million yen in 1Q alone, compared to 900 million yen plan for the whole year. Will the cost increase more than planned?

A Corporate expenses are kept low by including resources with other segments. If the volume of orders received under the current plan improves, the utilization and added value are expected to improve, and conventional profitability can be ensured by reducing overhead costs.

Q How was the motion control inventory movement from the fourth quarter of last fiscal year to the first quarter? What is the outlook?

A The total inventory reduction from 4Q to 1Q was nearly 3 billion yen. In 2Q, depending on the order, inventory will be returned to the original level if necessary.

Q What are the expected drivers of demand in the second half and beyond? On the other hand, what is being slow?

A The outlook for the second half of fiscal year is difficult and not clear at present. It is also necessary to closely watch how far progress is being made in semiconductor inventory adjustment. However, a full-scale introduction of 5G is expected next year, and the specs for 5G smartphones are expected to be decided in the second half of this fiscal year. The company also hopes to see its semiconductor-related orders return to normal in the second half of this fiscal year, as inventory adjustments are under way in the semiconductor market and orders for related equipment are already being placed.

Q What is the current production utilization rate for AC servos, AC drives, and robots?

A Basically it hasn't changed since 3 months ago. Overall, about 80%. AC servo overall was 80%, of which Shenyang was 100%. AC drives was 100% and robots about 70%.

Q If the external environment is unclear and the order in 2Q is weaker than expected, are you ready to reduce utilization ratio?

A If orders don't recover, we will not build up inventories, and we need to consider reducing overhead costs. If orders pick up, the company plans to build up its inventory. We are prepared to deal with both.

Q There are a lot of robot-related projects. What are the specific regions and applications?

A Almost all regions. In China, the 3C (consumer, computer, communication) industry has a certain production volume, and the need for investment in automation has not changed. As the fund has started to accumulate to a certain extent, the projects are becoming more visible. Other than 3C, automatization investment of EV processed parts and investment related to solar energy have already led to some orders. There are other car-related projects in other regions as well, but the timing is being planned for each customer for unique reasons.

Q I understand that production levels at customer factories are improving, but is there any possibility that demand will surge in the future?

A When demand rises, it often increases rapidly. As capital investment has been restrained for some time now, demand could surge if something happens, such as an improvement in the uncertain economic situation.

Q What was the inventory of robots from last year's Q4 to Q1? What is the definition of capacity when calculating utilization?

A The level has been flat. In the past years, there was a pattern of increasing stocks in the 1Q and releasing them in the 2Q, but the order is not so strong in this 1Q, so we are not in the situation where we increase stocks. The production capacity is defined as the number of units that can be produced on a single shift basis.

Q I understand that there is a possibility that demand in China will slow down in the second quarter. What is the specific situation?

A We need to closely watch how far China will make adjustments. As noted earlier, demand in China tends to decline after peaking in the first quarter, but this year demand did not increase as much in the first quarter, so the decline in the second quarter is expected to be limited. In addition, in the first quarter, China's monetary easing, including incentives for automobiles, was effective. If these economic effects continue, demand may rise in the second half of the year, as it did in 2016 and 2017.

Q Are there any moves to shift customers' production functions from China to other regions due to trade friction between the United States and China?

A There is talk of a shift to Asia, such as India and Vietnam, but there have been no specific orders for production facilities yet. We anticipate that the manufacturers continue production in China by investing in automation.

Q Looking at the progress of 1Q in the full-year forecast for this fiscal year, it seems weak. What is the main cause?

A It is true that the progress in the first quarter was somewhat severe. The decline in sales for both motion control and robots was slight, but orders for robots fell behind schedule. As a result, the company was unable to achieve planned profitability due to a decline in the rate of utilization, and this is to be made up for in the second half of the fiscal year.

Q At the beginning of the period, I was told that the demand for robots would not drop that much.

A Although orders are weak, sales in the 2Q are expected to be secured due to backlog of orders.

Q Did the mid-term plan announced on June 6 include the 1Q results outlook?

A It was announced after incorporating the outlook.