

Q&A for Telephone Briefing, FY2019 3Q Results (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 With regard to the graph of quarterly orders on P. 24, please tell us the regional and group-wide rate of change in each business in 3Q FY2019.

A • AC servo

Group-wide YoY -3%, QoQ +3%

Japan YoY -12%, QoQ -5%, Americas YoY +5%, QoQ +6%

Europe YoY -15%, QoQ +9%, China YoY +18%, QoQ +15%

Other Asian countries YoY -7%, QoQ -5%,

•Drives

Group-wide YoY -14%, QoQ -4%

Japan YoY +6%, QoQ -5%, Americas YoY -27%, QoQ -4%

Europe YoY -11%, QoQ +11%, China YoY -7%, QoQ -9%

Other Asian countries YoY -13%, QoQ -6%

•Robotics

Group-wide YoY -17%, QoQ -2%

Japan YoY -7%, QoQ -4%, Americas YoY -27%, QoQ -15%

Europe YoY -18%, QoQ +19%, China YoY -17%, QoQ -2%

Other Asian countries YoY -24%, QoQ -13%,

*YoY=year-on-year, QoQ=quarter-on-quarter

Q What is the sales ratio of AC servo by region in 3Q FY2019?

A 37% in Japan, 16% in the Americas, 11% in Europe, 23% in China, 13% in other Asian countries

Q What is the ratio of AC servo to motion control sales in 3Q FY2019?

A 57%.

Q How do you view 3Q orders?

A The orders for the AC servo were better than expected. China's orders usually fall in the 3Q, but this year they stayed at the same level as in the 2Q. On the assumption that the market will move toward the 5G introduction after the Chinese new year, customers have started to increase inventories. We expect the market to pick up after Chinese New Year.

Q Looking at the 3Q performance of the Robotics, I feel that there has been a structural deterioration. What is exactly happening?

A It turned out weak as expected. In September, the company received some orders ahead of schedule and hoped for a recovery, but in October and November, orders returned to a low level. Especially in the auto industry, it continued to be the case that the projects hardly turned into orders. In China there has been trial production in new areas, but it has yet to become mass production.

Q Is the automobile-related market weak globally?

A It is relatively strong in Japan, but it is weak in other regions.

Q Oil & gas-related sales are solid, but what is the reason for the negative 3Q orders of YoY and QoQ for Drives?

A Compared to the 3Q of last year, it has decreased, but compared to the 2Q, it is flat. Oil & gas-related sales were strong in the 1Q, and have recently calmed down but not weakened.

Q What is the breakdown of the applications of robots into automobiles and general industries?

A Based on the units of orders received, there was no significant change from the 2Q to 3Q. Nearly 50% are for automobiles, while 3C (home appliances and smartphones) varies by region, but the global average is around 5 ~ 6%.

Q If we subtract the business results up to Q3, isn't it a high hurdle to achieve an operating profit of 8 billion yen or more in 4Q?

A The performance of 3Q was as expected. The company lowered its full-year forecast at the result announcement of the 2Q, taking into account risks, and the 3Q performance was in line with the revised forecast. In the 4Q, we believe that we will be able to achieve our plan by System Engineering whose sales concentrate in 4Q contributing to profits.

Q Isn't the 4Q profit margin plan for Robotics too high?

A We believe the company can meet its 4Q profit margin plan for Robotics because of the increasing sales in 4Q as well as the increased capacity utilization aimed at building up inventory for next year.

Q What is the background of AC servo order in China +15% QoQ?

A Laser processing machines and woodworking machines are doing well. In China, imported products from Europe have been used for laser processing, but in recent years domestic production has increased and exports have begun. It is used to process various parts. Chinese woodworking machines are also being exported as furniture production shifts from China to Asia.

Q The profit margin for Robotics has been declining over the past quarters, but as the company has entered a phase of building up inventories in the 3Q, is it fair to say that the downward pressure on profits due to inventory adjustments will disappear in the future?

A 2Q was the bottom of the capacity utilization rate of Robotics, and inventory began to be loaded in 3Q. If orders do not decline in the future, profitability will recover from the 4Q onward.

Q How has inventory changed from 2Q to 3Q for Motion Control and Robotics, and what are your plans for 4Q?

A From 2Q to 3Q, the inventory for Motion Control leveled off and that for the Robotics increased by about 2 billion yen. In the 4Q, the inventory for Robotics is expected to increase by 1 billion yen, while that for Motion Control is expected to remain flat.

Q Was 2Q capacity utilization the bottom for both Motion Control and Robotics?

A Yes.

Q How much are 4Q orders expected to rise QoQ?

A Although it is difficult to predict what will happen during the Chinese new year, AC servo orders are expected to remain flat from 3Q to 4Q. However, orders received after the Chinese new year will contribute to the business performance of the first half of next fiscal year. They hardly will contribute to the business performance of the current fiscal year.

Q Do you see the degree of certainty of achieving your earnings forecast for the

current fiscal year?

A We are confident about the AC servo performance.

Q Why is the debt increasing on balance sheet?

A Interest-bearing debt increased by about 13 billion yen from 2Q to 3Q. About 8 billion yen remain unused, but some funds were used as a deposit for a capital investment project. Since the end of last fiscal year, accounts payable has decreased and the shortening of usance has had an effect of about 8 billion yen. Another factor is that there are approximately 5 billion yen in on-balance sheet assets, which were previously off-balance sheet, and were counted as liabilities. Including share buybacks in the previous fiscal year and the current fiscal year, we have controlled the ratio within our target D/E ratio.

Q What is your forecast for free cash flow this year?

A We are planning -5 billion yen free cash flow this fiscal year, but if we take into account the impact of the shortening of usance of -8 billion yen, it is practically +3 billion yen.

Q What is the impact of foreign exchange on 3Q cumulative sales?

A - 9.3 billion yen group-wide. Of this amount, -4.2 billion yen in Motion Control, -4.4 billion yen in Robotics, -0.6 billion yen in System Engineering, and -0.1 billion yen in Other.

Q What does the movement toward 5G introduction mean?

A Our company's business will be affected most by smartphone terminals. At present, there is a movement in production facilities for wearable devices, but we expect that those for smartphones will also start to pick up after the Chinese new year.

Q Was there any increase in inventory at distributors in the 3Q?

A Since orders in December were higher than the level in 3Q, we believe this to be a move toward inventory preparation for the demand increase after the Chinese new year.

Q What is the reason for System Engineering to perform better in Q4?

A Delivery dates for System Engineering are concentrated in the second half of fiscal year, and now the work in progress is piling up toward the end of the year. This year, sales of large scale steel-related projects were pushed back to the 4Q. In the environmental energy business, orders for new PV inverters have piled up,

and shipments of those will be made in the 4Q.