

Q&A for FY2019 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 With regard to the graph of quarterly orders on P. 29, please tell us the regional and group-wide rate of change in each business in 3Q FY2019.

A • AC servo

Group-wide YoY +9%, QoQ +3%

Japan YoY+4%、QoQ+3%、Americas YoY+28%、QoQ+16%

Europe YoY-20%、QoQ-7%、China YoY+12%、QoQ-12%

Other Asian countries YoY+16%、QoQ+28%、

•Drives

Group-wide YoY-5%、QoQ-8%

Japan YoY+8%、QoQ-11%、Americas YoY-17%、QoQ-8%

Europe YoY+9%、QoQ+11%、China YoY-5%、QoQ-21%

Other Asian countries YoY+0%、QoQ+4%

•Robotics

Group-wide YoY-15%、QoQ-6%

Japan YoY+12%、QoQ+11%、Americas YoY-17%、QoQ+4%

Europe YoY-17%、QoQ-24%、China YoY-41%、QoQ-30%

Other Asian countries YoY-16%、QoQ+16%

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

Q What is the regional sales ratio in AC servo business and drives business for FY19?

A AC servo: 36% in Japan, 16% in the Americas, 10% in Europe, 25% in China, 13% in other Asian countries, and 0% in others

Drives: 19% in Japan, 36% in the Americas, 12% in Europe, 22% in China, 10% in other Asian countries, and 0% in others

Q What is the percentage of AC servo and drives businesses in motion control sales for FY19?

A 57 : 43

Q What is the percentage of AC servo and drives businesses in motion control sales forecast for FY20 Q1?

A 60 : 40

Q How has the capacity utilization rate changed?

A <February>

Overall, nearly 70%.

Over 60% in AC servo business overall, and about 50% in Shenyang.

Over 70% in drives business overall, and about 30% in Shanghai.

Over 50% in robotics business overall, and about 20-30 % in Changzhou.

<March>

Overall, over 100%.

100% in AC servo business overall, and over 100% in Shenyang.

About 110% in drives business overall, and about 110% in Shanghai.

Over 60% in robotics business overall, and a little less than 50 % in Changzhou.

Q Motion Control's FY20 Q1 profit margin is planned to be 11.7%. What are the assumptions for the capacity utilization, while people are requested to refrain from going out in Japan because of the new coronavirus (hereafter, corona)?

A Factories in Japan continue to operate while taking appropriate measures in consideration of employees' health. Staff members are teleworking.

China has returned to regular operation.

In the U.S., the factories are operating under permission to continue, but the staff members are teleworking by almost 100%.

In Europe, both factories in Scotland and Slovenia are operating on shifts.

Q What are the levels of inventories from FY19 Q3 to Q4 and from FY19 Q4 to FY20 Q1?

A From FY19 Q3 to Q4, inventory saw a drop of nearly 1 billion yen for motion control and for robots respectively.

Inventory levels from FY19 Q4 to FY20 Q1 are planned to be flat.

Q What is the impact of corona on sales activities?

A Almost all domestic sales are conducted through telework. When it is difficult to visit customers, we cooperate by telework.

China has returned to normal operations. In the U.S. and Europe, there are times when people cannot move freely, but it is possible to provide services to customers remotely. On the other hand, activities to acquire new businesses are difficult.

Q Is it not because of the difficulty of operation, but because of the lack of visibility of final demand that the outlook for FY20 is not available?

A Exactly.

Q What is the current level of orders received for AC servo business?

A The recovery in demand from China is strong. Order level was as planned in March. We keep communicating with the local staff and we are not pessimistic about April and May. However, it is unclear what will happen after Q2.

Q What about demand trends outside China?

A In the U.S. and Japan, semiconductor-related demand is not strong, but it is steady.

Q Why is the added value of the operating profit change analysis not positive, while the capacity utilization is increasing?

A We assume that customers may stop operating for several weeks due to corona.

Q What is the impact of foreign exchange rates on FY20 Q1 revenue forecast?

A A negative impact by 3 billion yen YoY is planned.

Q Which markets are operating?

A Electronic parts and memory (data center) markets which are related to 5G are operating, as we had announced before the outbreak of corona. According to the latest information, there is also a demand related to mask manufacturing machines.

Q The robot business is expected to make a loss in FY20 Q1, while you are aiming at maximizing revenue in the mid-term business plan. What measures are you considering in the midst of a dramatic change in the business environment?

A We are reducing costs by rationalizing production and improving the procurement and selection of materials and parts.

Although we will not enter the market where Chinese manufacturers compete, which are emerging on the strength of low prices, we will review our cost structure so that we can compete with foreign manufacturers that compete with Chinese manufacturers. At the same time, we will be working on a cell production-based approach with i³-Mechatronics.

Q Can the operating profit ratio of the robotics business return to the 10% level of the past peak?

A In the robot market, there is competition in production costs, but the selling price has not fallen significantly. With the completion of the Yaskawa Technology Center, we aim to improve production efficiency and reduce costs, thereby we assume that 10% profit margin can be attained if the volume recovers.

Q In China, there will be investment in 5G and new IT infrastructure. Please tell us about the future business environment of AC servo business.

A I have an impression that demand for cars is falling, while non-automobile demand such as for smartphones is not falling that much. Demand for equipment related to solar panels and lithium-ion batteries is steady, and demand for equipment for processing cases for 5G-compatible smartphones and for manufacturing IC chips and cameras is expected in the future.

Also we expect that we partly benefit from investments in new IT infrastructure.

I also think we are catching up with China's subsidized growth markets. In the future, domestic demand in China will be supported by government subsidies and other means.

We will pay close attention to the impact of Chinese exports to the U.S. and Europe stopping going forward.

Q In the outlook for FY20 Q1, it is mentioned that the operation of customers' plants will deteriorate. Please provide specific comments about it.

A The outlook for FY20 Q1 includes a 2 ~ 3 week plant shutdown due to the impact of corona, especially for customers in Europe and the U.S. In addition, the impact may spread mainly in automobile-related industries, we expect.

On the other hand, other applications are expected to see some continued demand. It is not the case that the customers' factories are generally stopped at this moment.

Q Please tell us Yaskawa's operation status of the factories. It is said that factories in Europe and America are operating, but what will happen in the future?

A All of our global plants are in operation at the moment, and the Chinese plants in particular will be almost at full production unless anything unexpected happens.

While Japanese factories are operating steadily, the factories in the U.S. and Europe continue to produce products according to orders, but it is not clear how the orders will be in the future.

Q What are your thoughts on future capital investment?

A We will invest in the completion of the Yaskawa Technology Center, which is currently under construction. In addition to the building, the company plans to invest in development and trial production facilities related to the project. At present, there are no other investment plans, and we will continue to make capital investments while keeping an eye on the situation.

Q What are the businesses and regions with downside risks that you are concerned about?

On the other hand, I would like to know about businesses and risks that may be upside.

A Downside risk is currently found in robotics business in Europe. We will keep a close watch on when demand for automobile-related products will return.

On the other hand, I see Chinese robot business as upside risk. Demand for automation at production sites is strong and demand for robots is solid.

Q Since Yaskawa has a stronger financial position than it did at the time of the collapse of Lehman Brothers, I feel that you can take a contrarian strategy, such as going for market share rather than profits. What do you think?

A Regardless of the economic situation, we will continue activities to improve product competitiveness. I don't have the idea of trying to take market share on the contrary.

As for the robot plant in Slovenia, once the economic situation settles down, we will take a strategy that takes advantage of the strengths of the production bases.

Q The gap between orders and sales seems to be widening for robot business Q1 forecast, but will the gap between orders and sales disappear after Q2?

A Normally, orders for FY19 Q4 are expected to have a sales scale of FY20 Q1 because orders for the previous quarter will have a cycle that will lead to sales for the current quarter. However, sales are planned taking into account the risk that the customers' factory will not be able to operate. At this time, it is not possible to predict the order status in Q1 and the customer status in Q2, so the sales scale in Q2 cannot be mentioned.

Q The operating profit of the FY20 Q1 robotics business is expected to be in the red due to the decrease in sales, and I assume the quarterly sales of about 30 billion yen is the break-even point. If sales continue at the level of 30 billion yen per quarter, how will you make a profit after Q2?

A If sales of less than 30 billion yen in a quarter continue, we will review the plan, but if we stop investment in development, it will have a negative impact in the future, so we will not stop there, and if it continues for 6 months, we will consider cost reduction. However, the plan should be reviewed only if low sales continue even after the corona effect disappears. I think sales will improve if the corona effect disappears.

Q AC servo business profit margin plan for Q1 is high at 11.7% and if revenue hovers at Q1 levels, will this level of profit margin continue?

A There are some moves in and out, but it won't be so bad if China continues to recover, because profit ratio of China's AC servo business is high.

Q Regarding drives business, how is regional demand in the U.S. and Europe, which were favorable in FY19?

A Drives business is basically affected by infrastructure-related demand, but oil and gas in the U.S. is falling slightly, but factories are still operating, and there is no significant decline in demand partly because of the growth in HVAC-related demand to cope with corona.

Demand is existent but not strong in Europe, and the outlook is bleak.

As the Chinese government invests in infrastructure, such as cranes, elevators and factory compressors, it is expected that the market will move steadily if corona is not reactivated.

Q What kind of efforts have you made in the management against corona?

A Around the end of January, before the end of the Chinese New Year, we were told that it was dangerous, so in early February, we returned Japanese expats and their families back to Japan, arranged a total of 200,000 masks, and sent them to China to be in time for the resumption of operation after the Chinese New Year.

Later, it began to spread in Japan, and when China began to stabilize, Japanese expats returned to China because it was expected that travel from Japan would be banned.

Around March, when the virus spread throughout the world, an environment was created in Japan and China to thoroughly implement telework, and expenses were taken for this purpose. At the same time, since there is no movement of people, we took measures to share the development that is progressing globally.

Q Do you mean that the impact on the business was small because you took measures including telework before the corona problem became serious?

A Business has never been suspended due to corona.

Less than 20% of sales staff in Tokyo, Osaka and Nagoya commute to offices by using telework.

The factories are operating, and can produce what needed to be produced. China temporarily stopped production due to the government's policy, but it has started up at once, so there is no delay in production.

Q The cash flow of FY19 was severe, but is there any need to increase debt?

A The cash flow of FY19 was even, but there was a cost of about 8 billion yen by shortening the usance, so it can be said to be an increase of 8 billion yen. Interest-bearing debt has increased by slightly less than 30 billion yen since FY18, mainly due to a share buyback and shortening of usance as well as an increase in lease obligations. Substantial borrowing has not increased much.

In the medium term, the net D/E ratio is controlled at 0.15 and is within this range.

In order to increase liquidity in hand, we will increase our cash reserves for the time being by increasing borrowing.

In addition, there is an additional commitment line of 10 billion yen, so I think there is no problem with security.

Q Has the business of the auditing firm been affected in the settlement of accounts? Will the general meeting of shareholders be postponed?

A Fortunately, because Yaskawa's fiscal year end is at the end of February and differ from many other companies, the auditing firms were able to focus on Yaskawa.

In addition, there was no problem in terms of business as we cooperated by telework with each other, and the actual inventory had finished at each site before corona expanded, so the usual audit was carried out and the announcement was made in time.

Therefore, the general meeting of shareholders is expected to be held without any problems.

Having said that, the Q1 financial results announcement is unclear, although we believe that there is less burden on the auditing firm because there is a one-month difference compared with other companies.

Q Motion control is expected to increase sales from FY19 Q4 to FY20 Q1. Is this a reaction to the decline in February, or is there real demand for capital investment? Also, how is the current order receiving activity conducted?

A Some of the decline in February has been added, and as a seasonal factor, in China orders usually fall in Q4 and increase in Q1. In the current order receiving activities, sales staff use tools such as Zoom and Teams, and continue to discuss specifications and delivery dates with existing customers by using telework. Not all manufacturing industries have stopped.

What needs to be closely watched is what will happen to the production of goods whose demand is said to evaporate as people become immobile due to the influence of corona. I can't read it right now.

Q At the time of the collapse of Lehman Brothers, sales of motion control in FY08 Q3 were about 40 billion yen, but they halved six months later. Do you think the risk is greater than that?

A Frankly speaking, I don't know. At the time of the Lehman shock, capital investment stopped due to lack of funds. It is the people that stopped this time. We can't predict what will happen in the future, but we have no choice but to keep up with the manufacturing industry, which is currently moving.

Q What is incorporated in a 2 ~ 3 week stop in your FY20 Q1 earnings forecast?

A In short, we factored in a 2 ~ 3 week global shutdown of the auto plant into our robotics business forecasts.

Q Is the 2 ~ 3 week stoppage factored into the AC servo business plan?

A It's not as woven as in the robotics. In case there is any impact on AC servo business, there will be a time lag.

Q Looking at the FA market, since around 2015 there have been two major trends: increasing production capacity in China and upgrading to the high end while aiming at becoming a manufacturing superpower, and your company has also been growing. I understand that investment in increasing production capacity will slow down in the future, while high-end industries will be promoted, but will Japanese FA manufacturers including your company be able to continue to win when that happens?

A Looking at the entire Japanese manufacturing industry, the range of application of FA is wide. For the time being, the high-end areas of semiconductors, automobiles, and machine tools, as well as areas requiring reliability and performance, will grow. There are Chinese machines using 100 servo axes to achieve higher performance. Robots are evolving from SCARA to vertical articulation, as well as having diversified applications. It is not necessary to look pessimistically because the use to raise the quality by the mechanization also increases. Now, there are many inquiries even though people are not moving because of corona. At least the robots don't get infected, so the automated factory keeps moving. After the corona problem has settled, further automation is expected.