

Q&A for Telephone Briefing, FY2020 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 With regard to the graph of quarterly orders on P. 23, please tell us the regional and group-wide rate of change in each business in 1Q FY2010.

A •AC servo

YoY: +3% overall

Breakdown: Japan +4%, the Americas -12%, Europe -28%, China +14%, and other Asia +15%

QoQ: + 4% overall

Breakdown: Japan -10%, the Americas -38%, Europe -14%, China +83%, and other Asia -8%

•Drives

YoY: -21% overall

Breakdown: Japan -12%, the Americas -32%, Europe -35%, China -5%, and other Asia -23%

QoQ: -6% overall

Breakdown: Japan -5%, the Americas -17%, Europe -37%, China +53%, and other Asia -26%

•Robotics

YoY: -18% overall

Breakdown: Japan -8%, the Americas -41%, Europe -8%, China -17%, and other Asia -30%

QoQ: -4% overall

Breakdown: Japan -22%, the Americas -45%, Europe +12%, China +69%, and other Asia -15%

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

Q What is the sales ratio by region for FY 2020 1Q in AC servo and Drives?

A AC servo: Japan 31%, the Americas 13%, Europe 8%, China 34%, Asia excluding China 13%

Drives: Japan 20%, the Americas 34% , Europe 10% , China 28% , Asia excluding China 8%

Q What are the percentages of AC servo and Drives in FY2020 1Q Motion Control revenue?

A 61: 39

Q What is the segment breakdown of each cause of change in supplemental material (P. 12) for analysis of changes in operating profit from FY 2019 1Q to FY 2020 1Q?

A Effect of changes in forex rates: Motion Control -700 million yen, and Robotics -500 million yen. Profit decrease due to revenue decrease: Motion Control -800 million yen, Robotics -2.5 billion yen, and System Engineering -500 million yen.

Decrease in added value: Motion Control +400 million yen, Robotics -900 million yen and Other -200 million yen.

Decrease in expenses: Motion Control +1.2 billion yen, Robotics +1.8 billion yen, System Engineering +500 million yen and Other -100 million yen

Other include such items as subsidies that were previously included in non-operating profit/loss and extraordinary profit/loss and are now included in operating profit due to the shift to IFRS, comprising Motion Control +200 million yen and Robotics +300 million yen.

Q AC servo orders in China were brisk partly because of moves to build up inventories, but there are concerns about a possible backlash. How do you see the order trends in 1Q and the future?

A In February, operations were suspended due to the impact of the new coronavirus, but investment in various fields related to 5G started rapidly in March, and supply remained tight throughout the 1Q.

As for the outlook of China, inventory accumulation in the 1Q will settle down in the 2Q, partly due to remaining concerns about trends in external demand. This is similar to the seasonal trend of orders from 1Q to 2Q.

While Chinese smartphones are moving to 5G, the iPhone appears to be about two months behind previous plans. So far, we haven't received any orders for the 5G iPhone, but we expect to see them in the 2Q.

In the 2Q, orders from China are expected to be adjusted slightly.

Orders in other regions are expected to be similar to those in the 1Q.

Q What is AC servo's trend in orders for semiconductors?

A Orders are expected to remain firm. Customers in Japan, South Korea, and the United States have a strong outlook from Q1 to Q2.

Q Orders for Robotics have been decreasing YoY and QoQ since the middle of last year. How have automakers changed their investment appetite over the past three months?

A Like AC servo, operations in Robotics stopped in February and started up in March. In the

automobile-related market, orders were strong in the 1Q due to the Chinese government's policy to advance capital investment. Automobile production in China has also been increasing recently. In addition, due to the construction of factories for EVs and new energy vehicles, the trend is stronger than other regions.

Areas outside of China were affected by the new coronavirus, with previously planned projects orders were relatively well between March and April, but then slowed down. In the 2Q, it is difficult to see automobile-related orders picking up in regions other than China.

Q It was reported that the JV with Midea (China) was being dissolved. What is the true meaning of this?

A We have been working to strengthen the applications of home appliances and 3C through the JV with Midea. Even after Midea acquired KUKA, Yaskawa's robots kept being adopted, but due to their need to prop up KUKA, Yaskawa decided to do business with Midea as a customer since it would be difficult to expand business with them even if we continued JV further. We are also collaborating with other partners in the consumer electronics and 3C markets.

Q What caused profit to exceed 1Q forecast while revenue did not meet the forecast?

A The biggest factor is cost reduction. The cost control was carried out on a global basis, and some of our activities were restrained due to the new coronavirus.

Motion Control has also been improved by capacity utilization due to increased inventory.

Robots also saw an improvement in capacity utilization while products could not be set up, and the amount of work in progress increased, which did not lead to revenue.

We are planning to liquidate Robotics' inventory in the 2Q and put it back on track, and profits in the 2Q are planned to be smaller for revenue.

Q As for the usage of expenses, is the "emergency" mode continued?

A We will continue to deal with the situation through telework, etc., and reduce unnecessary and non-urgent expenses.

Q What are the investments in new infrastructure specifically and what businesses are involved?

A The biggest factor is the 5G-related investment, which includes not only terminals but also base stations and data centers.

Investments in new energy include solar panel production which are done by AC servo and robots, while laser processing machines and other equipment are also being used.

Investments in infrastructure and networks, as well as products used in 5G, IoT, and datacenters, will benefit Motion Control and Robotics in a wide range of areas.

Q How is the factory operating from 1Q to 2Q?

A On a one shift basis, the operating rate of 1Q is about 110% overall.

AC servo: about 110%, of which China about 180%.

Drives: about 110%, of which China about 130%.

Robotics: slightly over 60%, of which China over 50%.

The June figure is slightly above 120% overall.

AC servo: about 130%, of which China over 200%.

Drives: just under 120%, of which China just under 130%.

Robotics: about 70%, of which China just over 60%.

Q How do you forecast orders in 2Q?

A AC servo orders in China are expected to be adjusted, resulting in a total decrease in the 2Q.

Drives business overall is expected to be flat from the slump in oil and gas-related demand and a recovery in other markets.

In Robotics, we see 2Q being more difficult than 1Q, and plan to hold down our inventory as new projects have been narrowed down since March when the business was stronger. Although there is a view that demand will recover from the 3Q, the outlook for global automobile-related demand remains uncertain, and this is a factor that makes it difficult to forecast the full-year outlook. On the positive side, in China, the impact of the new coronavirus has been suppressed and is almost back to normal, and funds are flowing to the manufacturing industry due to incentives such as subsidies and high stock prices. If this leads to specific demand, there is a possibility of expansion in the second half, and it can be seen that 2Q will be the bottom.

Q A significant cost reduction effect was seen also on YoY basis, but was there any extra effort?

A We are working on top-down cost control on a global basis. As for labor costs, incentives are linked to business performance and are restrained.

Subcontracting costs are also being reviewed on a zero-basis. Taking this opportunity, we are further reducing fixed costs and working to realize a profit structure that can generate 10% profit even under low volume conditions in parallel with increasing added value. And we are working to build a foothold to achieve 13% profit target of the mid-term business plan if volume returns after next year.

Q In 1Q, were there areas where demand conditions were better or worse than expected?

A For the United States and European countries, we had taken considerable risks into account, but the business performance has fallen to almost that level. Especially in the case of Robotics, it has been difficult to find new projects, and it has been difficult to set up robots. We had seen improvements in China, and the situation was close to expectations.

Q How has the market outlook changed compared to three months ago?

A Oil and gas-related market fell more than expected. On the plus side, new applications have emerged in Europe as a special demand for welding of medical gas cylinders. It remains to be

seen what will happen to the U.S.-China trade friction in the future, but China's policy has begun to take effect and Chinese market is brighter than expected at the beginning of the fiscal year.

Q What are the percentages of AC servo and Drives in Motion Control revenue forecast of FY2020 2Q?

A 60: 40

Q What is the breakdown of the FY2020 1Q – FY2020 2Q change in operating profit?

A Effects of changes in forex rates: -100 million yen. -0.0 billion for each segment.

Profit decrease due to revenue decrease: -500 million yen. Breakdown: Motion Control -900 million yen, Robotics +300 million yen, System Engineering and Other +0.0 billion yen each.

Decrease in added value: -700 million yen. Breakdown: Motion Control -300 million yen, Robotics -700 million yen, System Engineering -200 million yen, and Other +500 million yen.

Increase in expenses: - 300 million yen. Breakdown: Motion Control +100 million yen, Robotics + 0.0 billion yen, System Engineering +0.0 billion yen, and Other -400 million yen.

Other: -200 million yen. Breakdown: Motion Control -0.0 billion yen, Robotics -200 million yen, System Engineering and Other -0.0 billion yen.

Q AC servo's capacity utilization is currently over 200%, but how will the 2Q capacity utilization affect added value?

A Increased capacity utilization in 2Q is expected to have a small positive effect in added value.

The plant is operating at full capacity until June to eliminate backlog of orders, but operations are expected to slow down slightly depending on the outlook for orders.

Q How do you see iPhone-related Robotics order in 2Q?

A There are smartphone-related projects, and some are scheduled to close in the 2Q, but the timing of orders tends to be delayed.

Q How will 5G-related demand growth contribute to AC servo business in China?

A Orders for machine tools and laser processing for 5G-related products, such as base stations and data centers, are increasing.

For reference, the major end markets of AC servo in 1Q of China are electronic components of 20%, and machine tools and metal processing machines of over 60% combined.

Q Is it fair to say that 5G-related investment in base stations and data centers will remain strong?

A The infrastructure-related investments are expected to continue, but China tends to move rapidly in the 1Q and adjust in the second. It is hard to see 2Q stronger than 1Q.

And the changes in 5G iPhones aren't going to be big enough to change production equipment

largely, so it's hard to expect big investments.

Q The interim dividend forecast is 12 yen, bringing the dividend payout ratio to about 40%. Will this level be maintained in the future?

A Last year, based on the initial plan, the company decided on the amount of dividends based on a payout ratio of 30% +  $\alpha$ . During the fiscal year, the company revised down its earnings forecast, but it did not change the amount of cash dividends because its financial structure did not deteriorate significantly even if it paid dividends as planned. As a result, the dividend payout ratio exceeded 80% last year.

Amid uncertainty over the future, the dividend forecast for this fiscal year is based on the original dividend payout ratio of 30% +  $\alpha$  in consideration of security.