

Q&A for Telephone Briefing, FY2020 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 What are the percentages of AC servo and Drives in FY2020 first three quarters' Motion Control revenue?

A 60:40

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 first three quarters to FY 2020 first three quarters?

A Effect of changes in forex rates: Motion Control -700 million yen, and Robotics -600 million yen.

Profit decrease due to revenue decrease: Motion Control -2.5 billion yen, Robotics -4.3 billion yen, and System Engineering -500 million yen.

Increase in added value: Motion Control +1.1 billion yen, Robotics -800 million yen, System Engineering +200 million yen and Other -400 million yen.

Decrease in expenses: Motion Control +3.9 billion yen, Robotics +4.6 billion yen, System Engineering +800 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 Robotics +500 million yen, System Engineering -200 million yen and Other -200 million yen.

Q What is the segment breakdown of each cause of change in supplemental material (P. 17) for analysis of changes in operating profit from FY 2019 to FY 2020 forecast?

A Effect of changes in forex rates: Motion Control -700 million yen, and Robotics -600 million yen.

Profit decrease due to revenue decrease: Motion Control -1.8 billion yen, Robotics -4.2 billion yen, and System Engineering -1.4 billion yen.

Increase in added value: Motion Control +2.5 billion yen, Robotics -900 million yen, System Engineering +400 million yen and Other -600 million yen.

Decrease in expenses: Motion Control +3.9 billion yen, Robotics +5.3 billion yen, System Engineering +800 million yen and Other -100 million yen

Other: Robotics +600 million yen, System Engineering -200 million yen and Other -100 million yen.

Q With regard to the graph of quarterly orders on P. 25, please tell us the regional and group-wide rate of change in each business in 3Q FY2020.

A •AC servo

YoY: +8% overall

Breakdown: Japan -1%, the Americas -6%, Europe +17%, China +13%, and other Asia +37%

QoQ: +23% overall

Breakdown: Japan +20%, the Americas +17%, Europe +38%, China +17%, and other Asia +42%

•Drives

YoY: -5% overall

Breakdown: Japan -18%, the Americas -17%, Europe +20%, China +10%, and other Asia -1%

QoQ: +13% overall

Breakdown: Japan +5%, the Americas +6%, Europe +40%, China +6%, and other Asia +35%

•Robotics

YoY: -2% overall

Breakdown: Japan -18%, the Americas -23%, Europe -11%, China +51%, and other Asia -9%

QoQ: +15% overall

Breakdown: Japan +10%, the Americas +1%, Europe +37%, China +10%, and other Asia +16%

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

Q How are orders received for AC servo in 3Q on a monthly and regional basis?

A Orders continued to increase from September to November. By region, China's orders usually hit bottom in the third quarter due to seasonal factors, but this year, inventory adjustments ended in the second quarter, and the third quarter orders rose from the previous quarter. Four regions were stronger than expected: Japan, the Americas, Europe and other Asia. In Japan, the Americas and other Asian countries, semiconductor and electronic components-related businesses have started to move remarkably. In Europe, distributors began securing inventories that had been squeezed. In Europe, the impact of the new coronavirus (hereafter, corona) has been severe, but has been gradually normalized.

Q Will inventory arrangements occur in other regions? How strong do you think Chinese economy is?

A The inventory buildup appears to have taken place temporarily in Europe in the third quarter. In China, manufacturing sector is booming in all industries, so there were some parts that stopped due to the corona effect in the first half, but in some months, YoY figures were higher than last year's. This is due to the fact that investments are being made in all industries with automation in mind, rather than relying on manpower, in order to meet the increasing demand even in the corona situation. Government subsidies for automation have also boosted demand for AC servo and robots.

Q The estimated annual cost reduction has been reduced from 11.3 billion yen to 9.9 billion yen. How do you see expenses going forward?

A SG&A were reduced in 1Q and remained almost at the same level until 3Q. In the meantime, activity costs have increased as customers resume operations, but outsourcing costs have been reduced as planned, which helped in the second half to maintain the overall cost level. In the future, the room for reduction in outsourcing costs will become smaller and activity costs may increase. However, we will manage to keep total overhead costs, including SG&A and manufacturing overhead costs, at 10% of the increase in revenue, and increase productivity to cope with the revenue increase.

Q What are the trends of the automobile-related demand in Robotics outside China?

A The impression is that automobile-related demand has recovered considerably in the 3Q in Japan and Europe. However, the recovery in the Americas is not yet robust. In Japan, projects that had been postponed for automobile-related customers were resumed, while investment in Europe to comply with exhaust gas regulations increased.

Q What is the status of plant utilization by segment?

A Plant utilization in 3Q was as follows.

Corporate : Approx. 100%

AC servo : Approx. 100% (Shenyang 160%)

Drives : Approx. 100% (Shanghai over 100%)

Robotics : Over 80% (Changzhou over 70%, Slovenia a little less than 100%)

Plant utilization in December was as follows.

Corporate : Over 110%

AC servo : Over 120% (Shenyang 200%)

Drives : A little less than 100% (Shanghai a little less than 100%)

Robotics : A little less than 90% (Changzhou a little less than 80%)

Q Why does the increase in operating profit seem to be small relative to the increase in revenue from FY2020 3Q to 4Q?

A As a result of the adoption of IFRS, about 1.2 billion yen of business tax and other expenses of the fiscal year as a whole will be recorded in 4Q, and therefore expenses are expected to increase from 3Q to 4Q. In Motion Control, an increase in SG&A of about 600 million yen is included, including an increase in expenses due to increase in revenue.

Q How much of China's new infrastructure-related investment is renewable energy-related?

A Investment in production facilities for lithium-ion batteries and solar panels is driving demand for our AC servos and robots. Lithium-ion batteries and solar panels are becoming a major market not only because of active investment in batteries for the 3C market but also for electric vehicles (electric vehicle), and because production of solar panels has been automated and production costs have been reduced.

Q What is the outlook for FY2020 4Q orders?

A At present, we expect demand to remain strong in the fourth quarter. As for China, although the outlook is difficult due to the influence of the Chinese New Year, orders in December were strong, and orders received in the fourth quarter are expected to be more than that received in the 3Q. By region, in addition to the continued strong performance in China, demand in other regions is recovering from the 3Q, and by business segment, in addition to the strong AC servo demand, the demand environment for robots will be strong in the 4Q. In addition, it is expected that demand for capital investment for smartphones will increase after the Chinese New Year.

Q What is the development status of the new series of AC servo and when will they be released?

A They will be launched in the first half of FY2021. The new product already passed the final test, and is an important component for realizing the i³-mechatronics concept. Therefore, we conduct test supply to specific customers in advance and receive feedback. In addition to improving basic performance beyond competitors' products, we plan to enhance added value by technologies utilizing IoT such as fault prediction through enhanced sensing functions. We also plan to make a profit by reducing manufacturing costs and making production more efficient.

Q Is China the only country with good orders in December? Also, is the accumulation of the stock by the agencies in the background?

A It is the overall trend that orders are good in December. In Europe, dealers are believed to have built up inventories in response to demand normalization.

Q What is the reason behind the good orders in December while the recovery in the U.S. automobile industry is delayed?

A There were some one-off orders in December, but orders for both Robotics and Motion Control were strong.

Q Despite the upward revision, why did the company keep its year-end dividend of 12 yen?

A Yaskawa's basic dividend policy is a 30% plus dividend payout ratio. In the full-year forecast at the time of 2Q earnings announcement, the company set a dividend of 12 yen with a dividend payout ratio of about 40%. The forecast has been revised upward this time, but dividend forecast has been left unchanged because the dividend payout ratio for the full year is now about 35%, which is in line with the dividend policy.

Q What are your plans for capital investment next year? The utilization of Shenyang plant in China has been significantly high recently, but are there any plans to increase capacity?

A The current production level is not higher than the peak in FY2017. Since we have invested in capacity building, additional investment in capacity building is not necessary.

However, there are some parts that are inefficient in logistics as we have developed bases in various regions in China. For this purpose, we have secured land for the production of robot controllers next to the robot plant in Changzhou, and will invest in improving efficiency.

On the whole, there are no other major capital investments, so we will make investments, including M & As, at a level of more than 6% of revenue in accordance with the policy stated in the mid-term management plan.

Q The profit forecast for System Engineering has been reduced since last time. What is the reason behind it?

A Although sales of PV inverters for solar power generation have improved due to the introduction of new products, sales recording of existing businesses for steel and water treatment plants have been delayed due to the spread of the new coronavirus infection. The full-year profit guidance takes into account the uncertainty.

Q Investments in mega solar power plants and offshore wind power generation are expected to increase in Japan. Aren't they a business opportunity for Yaskawa?

A It is a business opportunity, but it is unclear how much it will contribute to profits. Since there is an aspect of SDGs, we would like to work on it, but it is necessary to assess the profitability.

Q If next year's results return to FY2015 levels of revenue, will you be able to generate more operating profits than in FY2015, considering the current expense level?

A If increase in total overhead costs can be held down to within 10% of the increase in revenue, we will be able to generate more profits when revenue return to the FY2015 level. In order to return to 10% profitability as soon as possible, it is necessary to ensure a highly productive structure to cope with sales growth.