

Q&A for FY2020 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 What is the sales ratio by region for AC servo drive and AC drive for the cumulative total of FY 2020?

A AC servo : Japan 31%, Americas 15%, Europe 9%, China 30%,

Asia excluding China 15%

AC drive : Japan 19% , Americas 33% , Europe 12% , China 26% ,

Asia excluding China 10%

Q What are the percentages of AC servo and Drives in FY2020 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 to FY 2020?

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 -900 million yen, Robotics -3.2 billion yen, and System Engineering -1.0 billion yen.

Decrease in added value: Motion Control +1.6 billion yen, Robotics -1.3 billion yen, System Engineering -1.0 billion yen and Other -500 million yen.

Decrease in expenses: Motion Control +4.0 billion yen, Robotics +4.9 billion yen, System Engineering +700 million yen and Other +300 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 +600 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. 22) for analysis of changes in operating profit from FY 2020 to FY 2021 forecast?

A Effect of changes in forex rates: Motion Control +3.0 billion yen, and Robotics +2.2 billion yen.

Profit increase due to revenue increase: Motion Control +5.2 billion yen, Robotics +3.6 billion yen, and System Engineering -1.0 billion yen.

Increase in added value: Motion Control +2.9 billion yen, Robotics +1.2 million yen, System Engineering +3.0 billion yen and Other -400 million yen.

Increase in expenses: Motion Control -2.2 billion yen, Robotics -1.9 billion yen, System Engineering -200 million yen and Other -700 million yen

Other: Motion Control -400 million yen, Robotics -300 million yen, System Engineering -100 million yen and Other +300 million yen.

Q With regard to the graph of quarterly orders on P. 32, please tell us the regional and group-wide rate of change in each business in 4Q FY2020.

A ·AC servo

YoY: +42% overall

Breakdown: Japan +27%, the Americas -1%, Europe +42%, China +90%, and other Asia +63%

QoQ: +35% overall

Breakdown: Japan +30%, the Americas +22%, Europe +12%, China +47%, and other Asia +53%

·Drives

YoY: +3% overall

Breakdown: Japan -5%, the Americas -17%, Europe +20%, China +10%, and other Asia -1%

QoQ: +13% overall

Breakdown: Japan +5%, the Americas -11%, Europe -3%, China +36%, and other Asia +16%

·Robotics

YoY: +23% overall

Breakdown: Japan -6%, the Americas +23%, Europe +33%, China +101%, and other Asia -1%

QoQ: +18% overall

Breakdown: Japan +28%, the Americas +65%, Europe +14%, China -7%, and other Asia +26%

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

Q How was demand in AC servo drive during the 4Q?

A Amid the continued influence of Corona crisis, automobile and semiconductor sales recovered. China remained strong and other regions recovered well, generally exceeding expectations, not for specific reasons. Orders have been strong recently, and recovery is expected to continue in FY21.

Q Was AC servo's order volume highest in 4Q?

A The third level in the past.

Q What is the reason for the lack of growth in full-year revenue outlook compared to strong orders for Motion Control in the 4Q?

A Orders are still strong in March, but we do not expect this level to continue, as there are signs of advance arrangements for semiconductors. In addition, there may be a decrease from 1Q to 2Q and beyond by normal seasonal factors.

Q How is the situation in AC drive?

A We expect revenue to increase from the first half to the second half.

Q What is the background of the forecast for FY 22 profit increase in the mid-term plan?

A We observe the current situation and trends through communication with customers. There is a movement in the business field where Yaskawa technology can be utilized such as acceleration of shift to EV and environmental response, and it is expected to be a favorable wind for the next one or two years.

Q In fiscal 21, are risks such as rising logistics costs, rising procurement prices, and semiconductor supply issues factored in?

A Cost increases are not factored in because local production for local consumption is the basis and there is no major impact. However, there are concerns about rising material costs and the supply of semiconductors, so we will closely cooperate with suppliers to ensure risk management. The company also has a stock of Renesas semiconductors, so there will be no major impact.

Q What are the factors behind the recovery in capital investment in automobiles?

A The projects stopped due to corona started moving. There is also investment in EV, but this is mainly battery related investment.

Q How will you achieve the robot profit target of 11% in the mid-term plan?

A We reduce manufacturing costs by reviewing the production balance in Japan, China and Europe and optimizing production.

At the same time, the efficiency of production is improved by applying the solution factory production system.

In terms of sales, YDX will be used to manage deals and improve quality by not lowering prices.

In addition, we will increase added value by introducing new products and offering them together with motion control products.

Q Does optimization of robot production include exports from China to other regions?

A We have some items sent from Japan to China, but we do not export items produced in China.

Q What is the effect of i³-Mechatronics on sales?

A We propose solutions based on the i³-Mechatronics concept and sell products at a reasonable price.

Q What are the temporary costs of the System Engineering?

A I can't comment on the details because of the relationship with the client, but the amount is about 2.5 billion yen and is included in revenue cost.

Q FY 21 revenue is nearly 4 times that of Q4 FY20, but the company plans to increase its profits even further. What's the cause?

A Value added is improved. Motion Control was improved by capacity utilization through an increase in revenue and the effect of switching to new products.

Robotics is expected to benefit from improvement of capacity utilization and increase of system projects and after-sales service.

As for System Engineering, costs incurred in fiscal 20 will be eliminated.

Q Will there be more revenue outside of China in the future?

A Under the plan, China will not be the only country to see an increase, but Japan, Europe and the United States are also expected to make a steady recovery.

Q What is the breakdown of the increase to the operating profit of 61 billion yen target of the Mid-Term Plan "Challenge 25 Plus"?

A From FY 21 to FY 22, the assumed exchange rate is the same. We plan to increase profits by 19.8 billion yen due to an increase in revenue by 40 billion yen, increase in added value by 5 billion yen, and increase in total expenses (SG&A + overhead) by 5 billion yen.

Q The 19.8% operating profit ratio of the Motion Control in the Mid-Term Business Plan (P.8) is on par with its peak in FY17, but will it still be on par with an increase in revenue?

A Differences in the balance between AC servo and AC drive, China and Japan, and other factors have had an impact.

Although the sales price has not decreased, full-fledged reaping of the profit effect of the new product (Σ -X) will be done after FY 22.

Q Can we quantify the benefits of i³-Mechatronics?

A YDX is working to make the effects visible within the company, and we are considering making it possible to disclose the results quantitatively. Robotics has the greatest benefits of i³-Mechatronics. We propose solutions that match robots to AC servo customers and AC servo to robotics customers.

Q What changes do you see in the business environment from FY 21 to FY 22?

A As for the environment surrounding the FA industry, manpower saving and automation are advancing from the viewpoint of BCP due to corona.

Laser processing and secondary batteries are also growing as factors driving up demand.

Semiconductors are a bit of a bubble, but in the long run we expect it to be a growth factor in FY22.

There are also investments in solar panels, wind power, and paper packaging, increased server demand from Corona crisis, and shift to EVs.

Q What is the percentage of revenue related to battery?

A We do not have a complete picture of the market at present, but we expect to be able to count it as a market from FY 21 to FY 22.

Q You mentioned that capacity utilization of AC servo production in China was high in March, but is there any problem with production capacity? Also, is the accuracy of demand forecast improved by using DX?

A AC servo motor plant in Shenyang, China, is operating at full capacity with two shifts, and it is necessary to consider three shifts in the future. At present, a new plant is under construction in Changzhou, China, and it is possible to increase production in several months by installing production facilities in this plant. On the other hand, it is difficult to predict demand with high accuracy in the FA market only by utilizing DX. DX covers the entire supply chain to prevent the inventory of procured parts from running out and to reduce intermediate inventory to improve productivity.

Q The company has set a carbon-neutral target for 2050, but how will this lead to business?

A The industry as a whole has yet to tackle carbon neutrality, but Yaskawa has decided to take the lead. Except for some markets, such as oil and gas, Yaskawa's products themselves contribute to decarbonization.

Q AC servo motor Σ -X is now on the market, can we expect an acceleration of growth like the previous model (Σ -7)?

A We will improve performance and quality to differentiate ourselves from our competitors, while at the same time reviewing the number of components and the supply chain to enable more stable production. YRM controller will also be introduced to the market at the same time as the Σ -X, and by increasing the affinity with robotics, production efficiency at the cell level will be improved. Furthermore, it is possible to cover the area of communication standards of other companies.

Q When will the YRM controller be released and when will it contribute to business performance?

A The YRM controller will be available in April. The company aims to make it contribute to profitability in 2025 by gradually expanding sales, including developing new markets.

Q If we multiply revenue of FY20 4Q by 4, we will exceed our full-year FY 21 revenue plan. Does this mean that there are signs of a peak out in future demand?

A Although there are concerns about the impact of inventory accumulation in the 4Q of FY 20, we do not expect demand to clearly peak in FY 21.

Q What is the level of orders received in the 1Q of FY21 compared to the 4Q of FY20?

A Orders received in March FY21 were at a fairly high level, and in this case, the order level in the 1Q of FY21 is expected to be flat compared to the previous quarter because the order level in April always decreases compared to the previous month based on past experience.

Q In the robotics business, as a result of efforts to improve productivity, the operating profit ratio will improve as the volume of business increases. Why will the increase in operating profit ratio in FY 22 be better than in FY 21?

A In FY 20, operating profit was supported by subsidies for layoffs and social insurance exemptions due to the impact of the coronavirus, but these effects are expected to disappear as Corona crisis normalizes in FY 21.

Therefore, the cost plan for FY 21 is expected to increase from FY 20. In FY 22, we will raise the operating profit ratio by improving quality while keeping costs at a constant level.

Q Why did the operating profit rate of motion control decline in 4Q FY20 compared to 3Q?

A In Japan, business and property taxes totaled about ¥500 million in the 4Q of FY 20, and manufacturing overhead increased by about ¥500 million as production costs, which had been temporarily restrained due to the impact of the coronavirus, returned to normal. Another factor was the depreciation of inventories and the deterioration in the mix due to an increase in low-margin transactions in Europe.

Q Is it possible to increase the operating profit rate once the post-coronavirus cost levels are back to normal?

A The deterioration in the mix is temporary, and property taxes and write-offs of inventories are also specific to the 4Q.

Starting the 1Q of FY 21, only the portion of costs that have returned to normal levels will continue. In the future, we will secure profits by controlling production overheads as sales volume increases.

Q Although we reduced expenses by 10 billion yen in FY 20, is there any room to make the management structure more muscular by changing the way we work and the system?

A Expectations are that the 2 to 3 billion yen decrease in travel and transportation expenses and the reduced outsourcing and subcontracting expenses due to YDX's standardization of operations will not be recovered immediately. On the other hand, in terms of labor costs, the portion of temporary leave in Europe and the United States will be returned in the future. From now on, it is necessary to pay close attention to the costs that will increase in line with volume.

Q Will production efficiency increase due to the start of operation of a robot factory in Europe and an increase in production volume in China?

A In addition to improving the local procurement rate at the Slovenia plant in Europe, the company plans to incorporate added value through in-house production at the China plant.

Q The robotics operating profit target is 11% in the mid-term plan, a bit lower than previous targets. Why?

A Although it is difficult to achieve the previous target of 13% only by increasing sales volume, we have not given up. While repeatedly examining how to reduce costs by in-house manufacturing and sharing of components, we will work to improve productivity.

Q Recently, problems such as supply of semiconductor components have occurred. Is it necessary to review the supply chain?

A It is true that the supply of parts is tight, but there is no immediate impact on production. In the future, inventory will be managed at the component level, not at the product or semi-product level. We will promote the sharing of parts as much as possible and the use of YDX to visualize the amount of inventory on a global basis, in order to achieve a balance among plants.