

Q&A for Telephone Briefing, FY2021 1Q 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)

AC drives: AC 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 FY 2021 1Q in AC servo and AC drives?

A AC servo: Japan 27%, the Americas 12%, Europe 9%, China 37%, Asia excluding China 14%

AC drives: Japan 16%, the Americas 31%, Europe 12%, China 30%, Asia excluding China 10%

Q What are the percentages of AC servo and AC drives in FY2021 1Q Motion Control revenue?

A 64:36

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 2020 1Q to FY 2021 1Q?

A Effect of changes in forex rates: Motion Control +1.3 billion yen, and Robotics +900 million yen.

Profit increase due to revenue increase: Motion Control +7.1 billion yen, Robotics +4.3 billion yen, System Engineering +600 million yen, and Other -100 million yen.

Decrease in added value: Motion Control -2.4 billion yen, Robotics -1.9 billion yen, System Engineering +100 million yen, and Other -100 million yen.

Increase in total expenses: Motion Control -1.3 billion yen, Robotics -1.3 billion yen, System Engineering -200 million yen and Other +100 million yen.

Other: Motion Control -200 million yen, Robotics -200 million yen.

Q What is the segment breakdown of each cause of change in supplemental material (P. 18) for analysis of changes in operating profit from FY 2020 to FY 2021 forecast?

A Effect of changes in forex rates: Motion Control: +3.6 billion yen, and Robotics +3.2 billion yen.
Profit increase due to revenue increase: Motion Control +17 billion yen, Robotics +12.7 billion yen, System Engineering -700 million yen, and Other -500 million yen.
Increase in added value: Motion Control +500 million yen, Robotics +700 million yen, System Engineering +500 million yen and Other -200 million yen.
Increase in total expenses: Motion Control -5.9 billion yen, Robotics -5.2 billion yen, System Engineering +2.6 billion yen and Other -800 million yen.
Other: Motion Control -400 million yen, Robotics -400 million yen, System Engineering -100 million yen, and Other +300 million yen.

Q With regard to the graph of quarterly orders on P. 26, please tell us the regional and group-wide rate of change in each business in FY2021 1Q?

A •AC servo

YoY: +74% overall

Breakdown: Japan +59%, the Americas +120%, Europe +155%, China +47%, and other Asia +100%

QoQ: +28% overall

Breakdown: Japan +13%, the Americas +38%, Europe +54%, China +42%, and other Asia +13%

•AC drives

YoY: +64% overall

Breakdown: Japan +29%, the Americas +56%, Europe +176%, China +57%, and other Asia +71%

QoQ: +50% overall

Breakdown: Japan +29%, the Americas +46%, Europe +79%, China +76%, and other Asia +9%

•Robotics

YoY: +51% overall

Breakdown: Japan +24%, the Americas +90%, Europe +44%, China +80%, and other Asia +27%

QoQ: +17% overall

Breakdown: Japan +4%, the Americas -15%, Europe +22%, China +51%, and other Asia +9%

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

Q What is the percentage of AC servo in Full Year revenue Plan of Motion Control?

A 62%

Q What is the reason Why AC servo's order seem to improve compared to the plan?

A Orders in FY2021 1Q were expected to be at about the same level as FY2020 4Q. However, orders remained stronger than our expectation until June in almost all industries despite the assumption that advance orders would settle after April because of robust orders in March. Orders for AC drives and robots also remained strong.

The effects of the semiconductor shortage have become apparent in the market as a whole, and it seems to contain the increase of inquiries to Yaskawa due to the advance orders and the prolonged lead time of competitors. At present, there are no signs of slowing down, but it remains to be seen whether this high level will continue.

Q How is the sales situation of new products "Σ-X"?

A Samples have been tried by customers since last year, and the evaluation is good. Full-fledged market launch was planned in the second half of this fiscal year. However, we are preparing for mass production ahead of schedule because Σ-X is less affected by the shortage of semiconductors. We plan to switch to new products from old products while keeping a balance with the supply of semiconductors to meet growing demand.

Q The profit increase was small compared to the increase in revenue in the 1Q. The decline in added value seems to have a major impact. What's the cause?

A Excluding the special factors below, the profit structure has not deteriorated.

In the past, the manufacturing costs was put into the work in progress and remained in the inventory and finally became revenue costs. In conjunction with the start of operations at the Yaskawa Technology Center (YTC), personnel related to development in each division and factory were consolidated at YTC. Consequently, costs related to development have all at once been included in sales and administrative expenses as head office expenses. The transition to this organizational structure was implemented at the beginning of the fiscal year and reflected in the 1Q as inventory valuation, which resulted in a temporary deterioration in added value. We assume that the effect was about 2.5 billion yen (Motion Control: 1.2 billion yen, Robot: 1.2 billion yen, System engineering: 100 million yen).

In addition, due to a large increase in production volume, the apportioned rate of factory overhead cost on work in process has been reviewed and this has resulted in a temporary decrease in the value of inventories. As a result, negative factors such as 1.2 billion yen for motion control and 400 million yen for robots were generated.

Q What is the reason behind 15% decline in robot orders in the Americas QoQ?

A In FY2020 4Q, there was a big deal that pushed up the orders, but not in FY2021 1Q. The momentum is still strong.

Q Since orders for motion control in 1Q are very high, if this order is going to be included for revenue in 2Q, the full year forecast should be higher than current forecast. Do you expect the revenue to decrease in the second half?

A Orders in 1Q will turn into revenue not only in 2Q but also 3Q or later because they included orders having postponed delivery and orders for inventory building. Considering recent orders receiving from 1Q to now, the forecast has been revised upward mainly in revenue in 2Q and partly in revenue in 3Q. Due to uncertainties in the outlook for demand in the second half of the year, there is no reflection of changes in orders from 3Q onward in the sales forecast for the second half.

Q How many orders in 1Q do you think are advance orders?

A Some of them seem to be advance orders.

The current advance orders stem from the instability of the parts supply. Yaskawa also manage to secure the materials and maintain our production and sales. Thus, considering our current supply capacity, we believe that our lead time is a little longer than usual and orders are not immediately linked to sales, which is one of the reasons of advance orders.

Q According to the full year forecast, the profit rate of the robotics business is expected to be around 10% range, but it was about 5% in 1Q. Is it possible to achieve the goal?

A Excluding the temporary impact of development costs (about ¥1.2 billion) for the operating profit in the robotics business in 1Q, operating profit rate would have been about 8%. Looking at the current status of orders, revenue is expected to remain high after 2Q. Hence, we believe it is possible to achieve the full year forecast by controlling expenses to 10% of the increase in revenue. In addition, the trend in this year is the similar as in FY2017 so demand is rising rapidly. In these situations, work in process and inventory increase and capacity utilization improves more than revenue does. This improvement of capacity utilization has boosted the operating profit rate in the robotics business by about 1%.

Q What are your expectations for 2Q orders?

A At present, we expect high order levels until June due to the impact of customers' inventory building, but after July, this situation will be normalized.

Q What are the plant utilization rates for AC servo, AC drive, and Robotics in 1Q and after 2Q?

A Overall utilization rate in 1Q was 140%. Motion control was over 140%. Motion Control Shenyang plant in China was 230%. AC drive was 130%. AC drive Shanghai plant in China was more than 150%. Robotics was over 110%. Each of Changzhou plant in China and a plant in Slovenia in Europe was 100%.

The utilization rates of plants in Japan in each business have also been high. As for the future, we expect the similar rates at the beginning of 2Q.

Q While the demand environment in the second half of the fiscal year is difficult to predict, do you feel structural changes in the manufacturing industry, such as the need for stricter environmental measures?

A In response to supply chain concerns, there is a movement that manufacturers try to change suppliers, so new plants are expected to be built. Yaskawa will benefit from this because they will always invest in automation. In addition, we will surely grasp the energy conservation demand accompanying the progress of carbon neutrality in AC drives business and will respond to new needs through solar and wind power generation related businesses. Therefore, we believe that a new market will expand structurally.

Q What will causes motion control profits to decrease in the second half?

A The decrease in profits in the second half is due to the anticipation of a decline in revenue. The profit structure will not deteriorate. Effect of switching to new products could be expected.

Q Looking at a recovery level by regions, the recovery in Japan seems to be low. What is the reason?

A Orders in Japan were lower in both QoQ and YoY than in other regions, but it was because there was less slowdown in Japan compared to other regions in FY2020 1Q and orders in Japan returned well relatively in FY2020 4Q. Hence, this does not mean that Japan is left behind other regions. However, it tends to come out later than other regions because it is linked to overseas demand.

Q As for "Decline in added value" in 1Q, added value is negative even if temporary factors associated with the integration of development functions into YTC are excluded. What is the cause?

A As a result of the change in calculation method, improvement of capacity utilization isn't included in added value.

The positive impact caused by improvement of capacity utilization is mainly included in "profit increase due to revenue increase" and "Decrease in added value" includes special factors such as a negative impact of unrealized profits and losses. Therefore, added value was negative in 1Q.

Q According to TCFD that Yaskawa disclosed, opportunities outweigh risks. What is Yaskawa's stance on risks?

A From the viewpoint of risk reduction, we promote energy conservation and start to use natural energy. The utilization of solar power generation is spreading globally and energy saving by improvement of production efficiency is also accelerating. As for our contribution to society, we will contribute to our customers' energy conservation through new products such as AC drive with enhanced performance and promote the use of natural energy through our environmental and energy businesses. Moreover, Yaskawa will utilize its technologies in new fields such as environmental energy and electric vehicles, and apply the new technologies acquired in these fields to factory automation for sustainable development. From the viewpoint of BCP, we take measures to deal with risks such as abnormal weather, proceed with reorganization of offices, and establishment of a system that does not rely on outside by promoting in-house production.