

Q&A for Telephone Briefing, FY2021 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 is the regional revenue ratio in AC servo and Drives for FY2021 Mar.-Nov. period?

A AC servo: 30% in Japan, 14% in the Americas, 10% in Europe, 31% in China, 15% in Asia excluding China

Drives: 17% in Japan, 32% in the Americas, 13% in Europe, 28% in China, 10% in Asia excluding China

Q What is the percentage of AC servo and Drives in Motion Control revenue for FY2021 Mar.-Nov. period?

A 63:37

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 Mar.-Nov. period to FY 2021 Mar.-Nov. period?

A Effect of changes in forex rates: Motion Control +3.7 billion yen and Robotics +3.0 billion yen.

Profit increase due to revenue increase: Motion Control +20.1 billion yen, Robotics +11.1 billion yen, System Engineering +1.0 billion yen, and Other -0.7 billion yen.

Decrease in added value: Motion Control -4.1 billion yen, Robotics -1.0 billion yen, System Engineering +0.2 billion yen, and Other +0.7 billion yen.

Increase in total expenses: Motion Control -7.6 billion yen, Robotics -5.3 billion yen, and Other -0.6 billion yen.

Other: Motion Control -0.7 billion yen, Robotics -0.2 billion yen, System Engineering +0.1 billion yen, and Other +0.3 billion yen.

Q With regard to the graph of quarterly orders on P. 22, please tell us the regional and groupwide rate of change in each business in 3Q FY2021.

A · AC servo

YoY: +63 % overall

Breakdown: Japan +98 %, the Americas +47 %, Europe +70 %, China+31 %, and Asia excluding China +53%

QoQ: +1 % overall

Breakdown: Japan +19 %, the America -15 %, Europe +16 %, China -15 %, and Asia excluding China -6 %

· Drives

YoY: +73 % overall

Breakdown: Japan +138 %, the Americas +74 %, Europe +37 %, China +45 %, and Asia excluding China +82 %

QoQ: +12 % overall

Breakdown: Japan +42 %, the Americas +10 %, Europe -8 %, China -7 %, and Asia excluding China +36 %

· Robotics

YoY: +33 % overall

Breakdown: Japan +38 %, the Americas +62 %, Europe +34 %, China +21 %, and Asia excluding China +28 %

QoQ: +2% overall

Breakdown: Japan +0 %, the Americas +7 %, Europe +8 %, China -2 %, and Asia excluding China +0 %

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

Q There have been concerns about a slowdown in Chinese business sentiment, but the trend in orders is strong. What was better than expected?

A 3Q orders are stronger than expected. We assumed a reactionary decline in China, but after bottoming out in October, the order increased in November and December. In October, there were problems related to electricity supply and real estate, and small and midsize companies saw their financial conditions deteriorating. However, orders have returned thanks to monetary easing and the normalization of electricity supply.

Q Which regions other than China have seen good orders?

A Japan was strong. Orders for machinery exported to China have been arriving in Yaskawa about a quarter after China's improvement, so Japan covered China's seasonal decline in 3Q.

Q How do you see the future risks of orders? Are orders going to rise?

A We are paying close attention to the status of the advance order, but it has not increased much. In Japan, other companies have long lead times, and Yaskawa has received some orders with long delivery times.

Investments in EV and battery are strong globally. They are booming not only in China but globally. In China, when finished car manufacturers invest in EVs, parts manufacturers follow. The same movement is taking place also in Europe and the U.S.

Battery-related projects include welding of battery packs in Europe and the United States, and motion products and robots are used to produce batteries in China. Many machines for these purposes are exported from Japan. Investments in materials such as electrodes and separators are also occurring globally, mainly in South Korea. Investments in EVs and batteries are growing in various regions, which are driving growth in global orders.

Q Compared to the strong orders, the performance seems to be weak. How was it against expectations? Is production normal?

A In 3Q, revenue was a little less than expected. The main factor was a shortage of parts. Revenue bottomed out in October, with November and December showing signs of improvement.

It is difficult to predict the future, but judging from the current situation, we think we can restore the shortage of 3Q revenue.

Deliveries are tight for AC servo and AC drive due to tight supply of semiconductor parts. We have few problems in Robotics because we get a stable supply of in-house AC servos.

Q Last week, the Nikkei Sangyo Shimbun reported on an interview with the company president that Yaskawa was making efforts to enhance production. How will you increase production in the future, in Motion Control, by in-sourcing parts and improving procurement?

A In Motion Control, we will set up a manufacturing plant for circuit boards next to the robot factory in China and expand the in-house assembly of circuit board. However, obtaining semiconductor components themselves remains a challenge. Although there are some

parts that are in short supply, the material inventory is increasing, and the necessary materials are being prepared. I think the situation will improve from 4Q to the first half of next fiscal year.

As orders are strong, I think we can aim for higher production in the first half of next year if we have enough parts.

As part of our internal efforts, we are taking measures such as changing the design so that substitute parts and available parts can be used while quickly catching information from suppliers.

Q There is a growing interest in human resources and talent management, so please tell us about your efforts. Your operation is based on local production and local consumption, it must be necessary to raise the level of local human resources.

A In promoting YASKAWA Digital Transformation (YDX), human resource data will be integrated and stratified globally to balance the skills and personnel required.

In order to promote localization, the number of expats will be reduced, and talented local staff will be promoted.

Q When will YDX in production be deployed in Europe and the United States?

A Currently, it is applied in Japan and China, and will be expanded to Europe and America in the next step.

Q Will 4Q orders be up from 3Q or down?

A Although it is difficult to read the impact of Chinese New Year, there are many projects in 4Q.

4Q orders are expected to level off, but orders in December have remained strong, partly due to large-scale automobile projects.

Q What is the breakdown of the 4.3 billion yen decrease in added value of Mar.-Nov. period from the same period of the previous year?

A -3.1 billion yen as impact of change in R&D classification; -1.8 billion yen as net impact of rising raw material and logistics costs including price shifting. If you take out 3Q only, most of the cost increase is passed on to prices, so the impact is expected to be smaller in the future. Effect of switching to new products was +1.2 billion yen for Motion Control, and inventory fluctuation and unrealized profit had a slightly negative impact.

Q What is the reason for strong orders for AC servo, AC drive, and robots in Japan, the United States, and Europe?

A In Japan, AC servo orders are driven by machinery for semiconductors, electronic components and batteries. In the United States, semiconductor industry is a major driver. In Europe, strong orders are led by machine tools such as woodworking machines. Although AC drive business does not have many regional characteristics, it has been active on a global scale since the beginning of FY21, and investment in energy conservation and CO2 reduction is booming. In addition, orders related to compressors as measures against COVID-19 and air conditioners for semiconductor factories are increasing. China is also enjoying brisk infrastructure investment, including port cranes. As for Robotics, investment related to EVs is expanding including component manufacturers such as Tier 1. In the United States, other than automobiles, the utilization of robots in logistics is also emerging. In the field of semiconductors and batteries, in addition to AC servo and Robotics, AC drive is also performing well globally.

Q At the 2Q results briefing, you said that revenue did not grow because of the supply chain confusion in Southeast Asia, but how was it in 3Q?

A Supply chain problem in Southeast Asia affect our purchasing more than our revenue, but we are not causing any inconvenience to our customers. Supply chain problems are far from over, but since October the production has been bottoming out and improving.

Q In the regional QoQ revenue breakdown of System Engineering business, Europe has high ratio, and the segment's operating profit ratio has decreased. What are the trends and prospects for profitability of this business?

A The increase in revenue in Europe was due to growth in revenue related to large-scale wind turbines and ship generators. However, not because of low profitability of these, but because the revenue of other products slipped into the fourth quarter, operating profit ratio declined. In the fourth quarter, we plan to connect the delayed deal with revenue to recover profits.

Q Why did the negative segment eliminations increase in 3Q?

A Medium to long-term incentive (9 months) has been allocated. It is aimed at revitalizing the employee stock ownership by expanding the share-based compensation system to

general employees and raising their awareness of participation in management. Also in 4Q, about 1 billion yen is expected to be generated.

Q I have an impression that the number of procured parts is increasing with an increase in inventories. The current order conditions seem to be strong, but is it possible that the procurement cost will increase by prioritizing the securing of materials, and the gross margin will deteriorate?

A The impact of the rise in prices of parts / materials and logistics cost in 3Q was about 1 billion yen (on an operating profit basis) compared with the same period of the previous year, of which about 700 million yen was offset by price shifting, including surcharges. These efforts, such as price shifting, started in 2Q and will be more effective in the future. In addition, the parts and materials that are under pressure are semiconductors with low unit prices, and the cost as a percentage of the total product is low. Even if the cost of procuring semiconductors rises, the cost increase impact on the total product is limited. As more new products are expected to be introduced in the future, gross margins will not deteriorate.

Q At the 2Q results briefing, we were told that there were no problems with the supply chain and that Yaskawa had shipped according to the customer's production plan. However, this time, it sounds as if revenue's growth was sluggish due to a problem with parts procurement. What has changed?

A Some of our customers have not been able to obtain parts other than Yaskawa's, so we are continuing to adjust our production. On the other hand, in Yaskawa, due to a prolonged shortage of parts, our production was partly restricted from the 3Q. The levels of these impacts on production are expected to be similar. The procurement of parts became more severe from the second to third quarters, but the trend was improving in December.

Q 3Q operating profit (13.1 billion yen) is low, and 4Q operating profit forecast (18.1 billion yen) seems hard to achieve. Was there any temporary factor in 3Q?

A In 3Q, a medium- to long-term incentive of 1.5 billion yen was allocated as a temporary factor. Although it is a high target, we plan to increase revenue by 10 billion yen from 3Q to 4Q. With a marginal profit ratio of more than 50%, we believe we can achieve our 4Q operating profit targets by continuing to control costs.